

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF TENNESSEE AMERICAN)
WATER COMPANY TO CHANGE AND)
INCREASE CERTAIN RATES AND)
CHARGES SO AS TO PERMIT IT TO)
EARN A FAIR AND ADEQUATE RATE)
OF RETURN ON ITS PROPERTY USED)
AND USEFUL IN FURNISHING WATER)
SERVICE TO ITS CUSTOMERS)**

Docket No. 08-00039

**RESPONSES AND OBJECTIONS OF THE CONSUMER ADVOCATE AND
PROTECTION DIVISION
TO THE FIRST DISCOVERY REQUEST OF TENNESSEE AMERICAN WATER
COMPANY**

Robert E. Cooper, Jr., Attorney General and Reporter for the State of Tennessee, by and through the Consumer Advocate and Protection Division of the Office of the Attorney General ("Consumer Advocate"), hereby submits its responses and objections to the first discovery request of Tennessee American Water Company ("TAWC" or "Company").

GENERAL OBJECTIONS

1. The Consumer Advocate objects to the definitions and instructions contained in the Company's interrogatories to the extent that the definitions and instructions attempt to impose on the Consumer Advocate a burden or obligation greater than that required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

2. The Consumer Advocate objects to the interrogatories to the extent they call for information and the production of documents which are protected from disclosure by the attorney-client privilege, the attorney work product doctrine or any other applicable privilege or

protection. The Consumer Advocate objects to the data requests to the extent that the Company is attempting to impose on the Consumer Advocate obligations with regard to identification of privileged documents beyond those required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

3. The Consumer Advocate objects to the Company's interrogatories to the extent they seek information not related to the subject matter involved in this litigation or to the extent they are not reasonably calculated to lead to the discovery of admissible evidence. By providing information in response to these requests, the Consumer Advocate does not concede that such information is relevant, material or admissible in evidence. The Consumer Advocate reserves all rights to object to the use of such information as evidence.

4. The Consumer Advocate objects to the Company's interrogatories to the extent that the Company is attempting to impose on the Consumer Advocate obligations to supplement its responses beyond those required by the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

5. The Consumer Advocate objects to the Company's interrogatories to the extent that the Company is attempting to require the Consumer Advocate to provide information and produce documents beyond those in its possession, custody or control as that phrase is used in the *Tennessee Rules of Civil Procedure* and applicable statutes and regulations governing contested case hearings.

6. The Consumer Advocate objects to the Company's data requests to the extent they seek information and documents that are readily available through public sources or are in the Company's own possession, custody or control. It is unduly burdensome and oppressive to

require the Consumer Advocate to respond or produce documents that are equally available to the Company.

7. The Consumer Advocate's objections and responses to these requests are based on information now known to it. The Consumer Advocate reserves the right to amend, modify or supplement its objections and responses if it learns of new information.

8. The Consumer Advocate's responses to these requests are made without waiving or intending to waive the right to object to the use of any information provided in response to any subsequent proceeding or trial of this or any other action. The Consumer Advocate's responses to these requests are also not a waiver of any of the foregoing objections or any objections it has made or may make with respect to any similar, related, or future data request, and the Consumer Advocate specifically reserves the right to interpose any objection to further requests notwithstanding any response or lack of objection made in this response.

9. The Consumer Advocate will supplement its responses in accordance with the requirements of state law.

10. The Consumer Advocate expressly incorporates these general objections into its responses set forth below.

Subject to and without waiving any objections stated above the Consumer Advocate responds to the specific requests as follows:

DISCOVERY REQUEST NO. 1: On page 6, line 1 of his direct testimony, Dr. Brown puts forth the Parent Capital Structure. Are the capital structure amounts book values or market values?

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not

respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: The debt amounts and debt costs are values from AWW's unaudited 10-Q as of 08/03/31 as adjusted by Dr. Brown for AWW's off-balance sheet transaction in May 2008, as noted. The equity amount is the book value of equity unadjusted for inclusion of \$1.6 billion of goodwill in AWW's assets. The equity cost is 7.5%, a figure that is not a book value. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 2: On page 4, lines 4-5 of his direct testimony, Dr. Brown states that the overall cost of capital is 6.65%. How does Dr. Brown define the cost of capital?

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2)

were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: The overall cost of capital is defined as the result of the individual component's cost weighted by the total capital via double leverage. Refer to the tables on pages 6 and 7 of Dr. Brown's testimony. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 3: On page 4, lines 27-28 of his direct testimony, Dr. Brown states that the parent's cost of equity is 7.50 percent. Please define cost of equity as it is used in this sentence.

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: "The parent's cost of equity is 7.5 percent" is defined as the return which attracts and

corresponds to the return prudent investors can expect from investment in AWW. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 4: On page 15 of his direct testimony, Dr. Brown uses the DCF method and the Capital Asset Pricing Model (CAPM) to estimate the equity return. How does Dr. Brown define equity return? Is equity return different than the cost of equity?

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: The definition of equity return is the same as provided in the reply to number three. Equity return is not different than the cost of equity. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 5: On page 15, lines 14-15 of his direct testimony, in discussing the DCF method, Dr. Brown states, “This method does not assume there are capital gains or capital losses.” Please provide any academic references to support this statement.

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: Please refer to the Morningstar definition of trailing returns at page 10 of Dr. Brown’s testimony and the statement by York Water’s CEO at page 13 of Dr. Brown’s testimony. Please refer to the attached power point presentation by Professor Mark Rubenstein of the Univ. of California, panel 3, where the DCF’s assumption about stock prices is that “the current stock price is independent of its planned liquidation date.” Please refer to DCF theory originator, “The Theory Of Investment Value” by John Williams. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 6: On page 18, line 27 of his direct testimony, Dr. Brown states that he took the current dividend yield from the NASDAQ web site. Please state

what method is used to determine the price for the calculation, *e.g.*, is it the price as of a certain day, an average over some period? Also specify what the corresponding dividend is, *e.g.*, is it the last quarterly dividend annualized or is it the total amount of dividends for the entire year?

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: The dividend yield is a daily figure as of July 2, 2008, NASADQ calculates the yield by taking the most recent quarterly dividend payment times 4, and dividing that amount by the closing price. Because the July price generally represents a decline from prior periods, the dividend yield is probably the highest you'll get over the past year, except for Connecticut Water. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 7: On page 19 of his direct testimony, Dr. Brown presents his DCF calculation for his sample of water companies. Dr. Brown's dividend growth is based on dividend growth rates for the past five years.

- a. Please provide all references on which Dr. Brown relies that document the superiority of using historical dividend growth rates over use of analysts' forecasts of growth rates in the DCF model.
- b. Please provide the underlying data to support the calculation of the growth rates in each year for each company.

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows:

- a. Refer to "Joint Report by NASD and the NYSE On the Operation and Effectiveness of the Research Analyst Conflict of Interest Rules" December 2005. A copy is provided. Refer to FRB Chairman Greenspan's dismissal of I/B/E/S in the comments that were provided to you earlier.

- b. The underlying data is from the income and balances sheets of the 10-K's of the water companies from 2003 forward and those have been provided.

The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 8: In his direct testimony, Dr. Brown cites an article about Canadian pension plans titled “An Examination of the Equity Risk Premium Assumed by Canadian Pension Plan Sponsors” (page 38) and displays a portion of an article published in the October 2005 issue of the California Broker magazine (page 40). Please provide copies of both of these articles in their entirety.

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: Those articles have already been provided. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 9: Provide all source documents, notes of interviews, and any other data supporting Mr. Buckner’s testimony, including but not limited to: any workpapers supporting all adjustments made to the TAWC rate filing; any documents related to

all adjustments; data and calculations related to the test period ending November 30, 2007 (and for any other periods used by CAPD including a 12 month period ending March 31, 2008).

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: See enclosed documents. See also documents posted at:

<http://www.state.tn.us/tra/dockets/0300118.htm>;

<http://www.state.tn.us/tra/dockets/0400288.htm>, and

<http://www.state.tn.us/tra/dockets/0400288.htm>

The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 10: On page 41 of his direct testimony, Dr. Brown states that his implementation of the Capital Asset Pricing Model uses betas published on the NASDAQ website. Please provide a description of the data and methodology employed by NASDAQ in computing the stock betas that Dr. Brown relied upon. Include:

- a. The frequency of stock returns (daily, weekly or monthly). If weekly, include the day of the week used to obtain prices;

- b. Whether the returns include dividends or only price changes;
- c. The period over which the betas are computed, and the number of observations;
- d. Whether the regression equation includes an intercept term or not;
- e. Whether any adjustment is made to the estimated beta.

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: The beta is based on 5 years of monthly total returns.

- a. Monthly
- b. Dividends are included
- c. 60 Months
- d. Unknown
- e. Unknown

The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 11: On page 84 of his direct testimony, Dr. Brown provides a single slide from a presentation by the American Gas Association to the Federal Energy Regulatory Commission. Please provide a copy of the entire presentation.

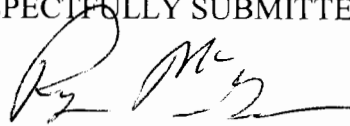
RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: See attached. The Consumer Advocate reserves the right to further supplement this response.

DISCOVERY REQUEST NO. 12: On Pages 28-31 of his direct testimony, Mr. Buckner discusses operating revenues for the Sale for Resale classification. Provide all workpapers, notes of interviews, e-mails and other documents that support or form the basis for each conclusion asserted.

RESPONSE: Consistent with the General Objections restated above, as well as the previous objections and responses of the Consumer Advocate, the Consumer Advocate will not respond to the extent this request seeks privileged information or information protected from

disclosure by the Attorney work product doctrine or other applicable law. Furthermore, the Consumer Advocate objects to producing copies of documents or things referenced by the Consumer Advocate if the documents or things: (1) were previously provided to TAWC; (2) were produced by TAWC in response to discovery requests or TRA staff data requests; (3) are in the public record or domain; or (4) are in the administrative record of the Authority; requiring the Consumer Advocate to produce copies of such documents would be unduly burdensome and costly. Subject to and without waiving these objections, the Consumer Advocate responds as follows: See enclosed documents. The Consumer Advocate reserves the right to further supplement this response.

RESPECTFULLY SUBMITTED,



RYAN L. McGEHEE
Assistant Attorney General
Office of the Attorney General and Reporter
Consumer Advocate and Protection Division
P.O. Box 20207
Nashville, TN 37202-0207
Tel: (615) 532-5512

Dated:

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing is being served via U.S. Mail and/or electronic mail upon:

R. Dale Grimes, Esq.
Ross Ian Booher, Esq.
Bass, Berry & Sims PLC
315 Deaderick Street, Suite 2700
Nashville, TN 37238

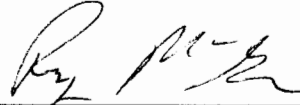
Michael A. McMahan, Esq.
Valerie L. Malueg, Esq.
Special Counsel
City of Chattanooga
801 Broad Street, Suite 400
Chattanooga, TN 37402

Frederick L. Hitchcock, Esq.
Harold L. North, Jr., Esq.
Chambliss, Bahner & Stophel, P.C.
1000 Tallan Building
Two Union Square
Chattanooga, TN 37402-2500

David C. Higney, Esq.
Grant, Konvalinka & Harrison, P.C.
Ninth Floor, Republic Centre
633 Chestnut Street
Chattanooga, TN 37450-0900

Henry M. Walker, Esq.
Boult, Cummings, Conners & Berry, PLC
1600 Division Street, Suite 700
Nashville, TN 37203

This the 31 day of July, 2008.



RYAN L. McGEHEE
Assistant Attorney General

121904

Great Moments in Financial Economics

Mark Rubinstein

**Paul Stephens Professor of Applied Investment Analysis
University of California at Berkeley**

www.in-the-money.com



Great Moments in Financial Economics



- 1) Present value
- 2) Modigliani-Miller Theorem
- 3) Short Sales

$$PV_0(X_1, X_2, \dots, X_t, \dots) = \sum_{t=1}^{\infty} \frac{X_t}{r^t}$$

- **The current stock price equals the present value of all future dividends.**

This view of stock prices supplies the context for “fundamental analysis”, which attempts to estimate (usually by some indirect method) the time series of future dividends. It implies that the current stock price is independent of its planned liquidation date.

- Finite-lived annuity (T years):

$$PV_0(X_1, X_2, \dots, X_t, \dots, X_T) = (X/(r - 1))[1 - (1/r)^T]$$

- Perpetually growing cash flow ($g < r$):

$$PV_0(X_1, X_2, \dots, X_t, \dots) = X_1/r + X_1g/r^2 + X_1g^2/r^3 + \dots = X_1/(r - g)$$

Irving Fisher, *The Rate of Interest: Its Nature, Determination and Relation to Economic Phenomena* (1907)

Edmund Halley, “Of Compound Interest” (1761)



Johan de Witt, “Value of Life Annuities in Proportion to Redeemable Annuities” (1671)

Abraham de Moivre, *Treatise on Annuities on Lives* (1725)

$$PV_0(X_1, X_2, X_3, \dots, X_t, \dots) = X_0x/(1 - x) \text{ where } x \equiv g/r$$

— John Burr Williams, *The Theory of Investment Value*, p. 88, equation 17a.



Great Moments in Financial Economics
Copyright©2003 Mark Rubinstein

Modigliani-Miller Theorem



Modigliani-Miller Theorem: In a perfect market, if the operating income of a firm is independent of its capital structure, then (present) value of a firm (the sum of the value of its debt and equity) is independent of its capital structure.

Homemade leverage argument: don't pay for someone else to make something you can make yourself for free.

Value additivity argument: the present value of the sum of cash flows is the sum of their present values.

Franco Modigliani and Merton Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment," *American Economic Review* 48, No. 3 (June 1958), pp. 261-297. [Taxes]

Franco Modigliani and Merton Miller, "Reply to Heins and Sprengle," *American Economic Review* 59, No. 4, Part 1 (September 1969), pp. 592-595.



Great Moments in Financial Economics
Copyright©2003 Mark Rubinstein

Modigliani-Miller Theorem

"Law of the Conservation of Investment Value"



"If the investment value of an enterprise as a whole is by definition the present worth of all its future distributions to security holders, whether on interest or dividend account, then this value in no wise depends on what the company's capitalization is. Clearly, if a single individual or a single institutional investor owned all the bonds, stocks, and warrants issued by a corporation, it would not matter to this investor what the company's capitalization was (except for details concerning the income tax). Any earnings collected as interest could not be collected as dividends. To such an individual it would be perfectly obvious that total interest- and dividend-paying power was in no wise dependent on the kind of securities issued to the company's owner. Furthermore, no change in the investment value of the enterprise as a whole would result from a change in its capitalization. Bonds could be retired with stock issues, or two classes of junior securities (i.e. common stock and warrants) could be combined into one, without changing the investment value of the company as a whole. Such constancy of investment value is analogous to the indestructibility of matter and energy; it leads us to speak of the Law of the Conservation of Investment Value, just as physicists speak of the Law of the Conservation of Matter, or the Law of the Conservation of Energy."

— John Burr Williams, *The Theory of Investment Value* (1938), pp. 72-73.



Great Moments in Financial Economics
Copyright © 2003 Mark Rubinstein

Short-Sales and Stock Prices

Laundry List of "Anomalies"



- overpricing of IPOs
- "Monday effect"
- momentum factor in stock returns
- stocks with high turnover have lower returns
- high beta stocks have too low returns
- closed-end fund discounts
- smirk in index option prices
- excess volatility of stock returns
- asymmetry of market crashes over market rises
- recent Internet-based stock market "bubble"



Great Moments in Financial Economics
Copyright © 2003 Mark Rubinstein

Short-Sales and Stock Prices

Williams-Miller Hypothesis



 Edward Miller, "Risk, Uncertainty and Divergence of Opinion" (1977)

"In multiple stock markets, each stock will be held only by those who like that particular stock issue better than any other, and those who prefer some other stock will not be owners of that particular stock, even though they may entertain an opinion on that one along with the opinions on all others. ... In other words, in a multiple stock market there is a tendency for most people to think all stocks but their own too high. If most people are right in their opinion of the other fellow's investments, then it would follow that stocks in general have a tendency to sell too high, because almost every other stock will enjoy some distinction of its own, and will tend to gather around itself its own special group of enthusiasts who will bid its price up too high. If every stock is somebody's favorite, then every price should be viewed with skepticism."

– John Burr Williams, *The Theory of Investment Value* (1938), pp. 28-29.

Prediction: the greater the divergence of opinion and the higher the barriers to short-selling, the higher the prices of stocks



Great Moments in Financial Economics
Copyright © 2003 Mark Rubinstein

Short-Sales and Stock Prices

Diamond-Verrecchia Hypothesis



Douglas Diamond and Robert Verrecchia, "Constraints on Short-Selling and Asset Price Adjustment to Private Information" (1987)

Rational Expectations: optimists take into account the pessimism of those that would have liked to have short-sold, so on average prices are not too high or too low

How to Tell the Difference: announcements of increases in short-interest push prices down immediately or with delay?

Crash Asymmetry: when pessimistic information is unusually negative, it is not factored into prices



Great Moments in Financial Economics
Copyright © 2003 Mark Rubinstein

Short-Sales and Stock Prices

Short-Selling Puzzles



Demand Puzzle: why is there not much more short selling?

Supply Puzzle: why aren't more investors willing to loan out their stock to short-sellers?

**Joint Report by NASD and the NYSE
On the Operation and Effectiveness of the
Research Analyst Conflict of Interest Rules**

December 2005

TABLE OF CONTENTS

INTRODUCTION	1
I. BACKGROUND	2
A. Conflicts that Led to Regulation	2
B. Summary of Rule Filings and Other Regulatory Actions	4
1. NASD/NYSE Rule Filings	4
2. Joint Memoranda and Interpretations	8
3. Other Regulatory Initiatives	8
4. Enforcement Proceedings	9
II. REGISTRATION AND QUALIFICATION REQUIREMENTS	10
A. Series 86/87 Examinations	10
B. Exemptions	11
C. Supervisory Requirements	12
D. Statistics	12
III. EXAMINATIONS, SWEEPS AND ENFORCEMENT ACTIONS	12
A. NASD Summary	12
1. Member Regulation	12
2. Enforcement	13
3. Advertising	14
B. NYSE Summary	15
1. Member Firm Regulation	15
2. Enforcement	15
IV. IMPACT OF RULES: ACADEMIC STUDIES AND MEDIA REPORTS	16
V. REVIEW OF RULE PROVISIONS	28
A. Analytical Framework for Review	28
B. Section-by-Section Review	28
1. Definitions	29
2. Restrictions on Investment Banking Department Relationship with Research Department	31
3. Restrictions on Solicitation of Investment Banking Business	32
4. Restrictions on Sales and Marketing Activities	32
5. Restrictions on Publishing Research Reports and Public Appearances	33
6. Restrictions on Personal Trading by Research Analysts	37
7. Disclosure Requirements	39
8. Prohibition on Retaliation Against Research Analysts	41
9. Prerequisites for the Research Analyst Qualification Examination	41

C.	Other Issues.....	42
1	Fixed-Income Research	42
2.	Issuer Retaliation	42
3.	Foreign Regulatory Initiatives	43
VI.	CONCLUSION	44

EXHIBITS

Exhibit A – SRO Rules

NYSE Rules 472 and 472(k) Interpretation, 351, 344 and 344 Interpretation, and 345A

NASD Rules 2711, 1050 and 1120

Exhibit B – July 2002 Joint Memorandum

NYSE Information Memo No. 02-26 (June 26, 2002) and NASD *Notice to Members* 02-39 (July 2002)

Exhibit C – March 2004 Joint Memorandum

NYSE Information Memo No. 04-10 (Mar. 9, 2004) and NASD *Notice to Members* 04-18 (Mar. 2004)

Exhibit D – Chart Comparing SRO Rules and Global Settlement

INTRODUCTION

Beginning in 2002, the New York Stock Exchange (“NYSE”) and NASD (together, “the SROs”) implemented a series of rule changes (“SRO Rules”) to improve objectivity and transparency in equity research and provide investors with more reliable and useful information to make investment decisions. The rules were intended to restore public confidence in the validity of research and the veracity of research analysts, who are expected to function as unbiased intermediaries between issuers and the investors who buy and sell their securities. The trustworthiness of research had eroded due to the pervasive influences of investment banking and other conflicts that had manifest themselves during the market boom of the late 1990s.

Generally, the SRO Rules require clear, comprehensive and prominent disclosure of conflicts of interest in research reports and public appearances by research analysts. The rules further prohibit certain conduct – investment banking personnel involvement in the content of research and determination of analyst compensation, for example – where the conflicts are considered too pronounced to be cured by mere disclosure. Together with the Securities and Exchange Commission’s (“SEC” or the “Commission”) Regulation Analyst Certification and the settlement terms of certain enforcement proceedings, including the “Global Settlement” among the SROs, the Commission, the North American Securities Administrators Association (“NASAA”) and ten¹ of the largest investment banks, the SRO Rules have resulted in sweeping changes to the way firms produce research, utilize and compensate research analysts, and structure the operations of their research and investment banking departments. Evidence suggests that these reforms have resulted in more objective, reliable and valuable research for investors. However, the new rules also have added costs and administrative burdens to firms and contributed to a reduction in research coverage and analyst compensation.

The SEC has requested that the SROs submit this joint report on the operation and effectiveness of the SRO Rules, including any staff recommended changes to the current rule provisions.² The report contains six sections. Section I provides background on the conflicts that gave rise to the SRO Rules and sets forth the history of the SRO rulemaking and other regulatory initiatives with respect to research-related activity. Section II discusses the registration and qualification requirements for research analysts and their supervisors, including statistics concerning the levels of registration and qualification. Section III contains a review of SRO examinations, sweeps and enforcement activity since the SRO Rules became effective. Section IV discusses the impact of the SRO Rules as reported in academic studies and media reports and commentary. Section V contains a detailed review of the SRO Rule provisions, including member feedback and recommended changes. Finally, Section VI is the Conclusion.

¹ In August 2004, two additional firms settled with regulators under the same terms as the April 2003 Global Settlement.

² The views provided in this report are solely those of the NASD and NYSE staffs and have not been endorsed by the Board of Governors of NASD or the Board of Directors of the NYSE.

I. BACKGROUND

A. Conflicts that Led to Regulation

Prior to implementation of the SRO Rules, research analysts were subject to a host of pressures and influences that could – and in many instances, did – compromise the objectivity of their research. The primary biasing forces came from investment bankers who pressured research analysts to speak favorably of current and prospective clients and, with management acquiescence, linked analysts' compensation directly to their role in landing lucrative investment banking deals. In the succinct words of a retired Wall Street research analyst who testified before Congress in the summer of 2001: "Investment banking now dominates equity research."³ Other conflicts also existed, most notably analysts' personal financial interest in the securities they covered and their firms' ownership positions in covered securities. In addition, research analysts were subject to pressure from subject companies and their major shareholders to maintain favorable ratings.⁴

In testimony before the House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises (the "Subcommittee"), SEC Acting Chair Laura Unger identified a number of then commonplace practices that illustrated the conflicts of interest faced by research analysts.⁵ First, research analysts were compensated based on their contributions in support of investment banking transactions and the profitability of that unit. To that end, research analysts typically consulted on possible transactions, participated in road shows and initiated favorable coverage on current and prospective investment banking clients. Moreover, investment bankers at some firms evaluated research analysts for compensation purposes, particularly bonuses.

Second, research analysts provided research reports on companies underwritten by the analysts' firms. Third, research analysts invested in pre-initial public offering ("IPO") private placements of companies they subsequently covered and for which their firms had acted as underwriters. Fourth, research analysts provided investment bankers with prior notice of changes in recommendations. Fifth, research analysts issued "booster-shot" research reports or "buy" recommendations close to expiration of the lock-up period. Such reports served to generate buying interest in the stock and help increase the price while the firm, its clients, or the analysts sold their shares. Sixth, research analysts owned securities in the companies they covered and either failed to disclose those interests or did so in an opaque manner. In some cases, analysts executed trades for their personal accounts that were contrary to the recommendations in their research reports.⁶ Finally, analysts rarely revealed any conflicts of interest to investors during

³ *Analyzing the Analysts: Hearings Before the H. Comm. On Capital Markets, Insurance, and Government Sponsored Enterprises of the Comm. On Financial Services*, 107th Cong., at 243 (2001) (prepared testimony of Ronald Glantz, retired) ("Glantz Testimony").

⁴ See, e.g., *Analyzing the Analysts* at 251 (prepared testimony of Charles L. Hill, Director of Financial Research, Thomson Financial/First Call) ("analyst objectivity is subject to pressure from four different places": (1) analysts themselves; (2) investment banking; (3) public companies; and (4) institutional shareholders).

⁵ *Analyzing the Analysts* at 227-240 (written testimony of Laura S. Unger, Acting Chair of the Securities and Exchange Commission) ("Unger Testimony").

⁶ *Id.* at 233. See also, e.g., *Analyzing the Analysts* at 160 (prepared testimony of Gregg Hymowitz, Founder and Principal of EnTrust Capital Inc.); Glantz Testimony, *supra* note 3; *Analyzing the Analysts* at 266

media appearances in which they routinely recommended securities, and while most firms affirmatively stated that they acted as an underwriter or market maker, others merely stated that they “may” have acted in that capacity.⁷

While these conflicts were not new, they had deepened in the existing market environment. As another witness who testified before the Subcommittee observed:

[T]he pressures on the analyst have escalated in an environment where penny changes in earnings-per-share forecasts make dramatic differences in share price, where profits from investment-banking activities outpace profits from brokerage and research, where the demographics of the investors who use and rely on sell-side research have shifted, and where investment research and recommendations are now prime-time news.⁸

The industry itself seemed to recognize that the conflicts in research had intensified. As the SROs began rulemaking, discussed in Section I.B below, the industry took steps on its own to address these conflicts. Several firms amended or adopted policies regarding research analysts’ ownership of securities of covered companies.⁹

In addition, in June 2001, the Securities Industry Association (“SIA”) endorsed a compilation of “best practices”¹⁰ designed to restore the integrity of research and “reaffirm that the securities analyst serves only one master: The investor.”¹¹ The practices were compiled by an ad hoc committee of senior research professionals from the SIA’s largest member firms, and included several key recommendations focused on analyst compensation and stock ownership, relations

(prepared testimony of Adam Lashinsky, Silicon Valley Columnist, The Street.com); *Id.* at 253 (prepared testimony of Matt Winkler, Editor-in-Chief, Bloomberg News).

⁷ Unger Testimony, *supra* note 5, at 234.

⁸ *Analyzing the Analysts* at 196 (statement of Thomas A. Bowman, CFA, President and Chief Executive Officer, The Association for Investment Management and Research).

⁹ For example, Merrill Lynch, Edward Jones and Credit Suisse First Boston announced new policies prohibiting analysts from owning shares in companies they follow. *See id.* at 120 (opening statement of Honorable Paul Kanjorski). Goldman Sachs initiated a policy that would permit analysts to own shares in companies they cover under the following conditions: (1) approval of management and the firm’s compliance committee would be required for purchases; (2) purchases would be subject to a minimum 30-day holding period; (3) analysts would be permitted to purchase only stocks that were rated a “trading buy” or already on the firm’s recommended list; (4) analysts would be prohibited from selling securities unless they were rated below a “trading buy”; and (5) there would be a twenty-four hour restriction imposed after a change in the rating of a company. *See* Adam Lashinsky, *Wall Street’s Discovery of Ethics Is Too Little, Too Late*, TheStreet.com, July 10, 2001, <http://www.thestreet.com/markets/adamlashinsky/1486552.html>.

Prior to this time, Robertson Stephens had implemented a policy in September 2000 pursuant to which: (1) analysts cannot own stock in companies they cover, and (2) if they already own shares in a company they want to cover, they are required to sell their shares or place them in a blind trust. *Id.*

¹⁰ *See Best Practices for Research*, June 2001, and Press Release, *SIA Endorses “Best Practices” To Ensure Ongoing Integrity of Research* (June 21, 2001); *Analyzing the Analysts* at 172 (statement of Marc E. Lackritz, President, SIA).

¹¹ *See Best Practices for Research*, June 2001, and Press Release, *supra* note 10.

with investment banking units and disclosures: (1) research departments should not report to investment banking or any other business units that might compromise their independence, and there should be no outside or investment banking approval of the analyst's opinions or recommendations; (2) analysts' compensation should not be directly linked to specific investment banking transactions, sales and trading revenues or asset management fees; (3) personal financial interests in covered securities should be disclosed; and (4) analysts should not trade contrary to their recommendations, except after consultation with research department, legal and/or compliance personnel.¹²

Similarly, in July 2001, the Association for Investment Management and Research ("AIMR"), which is now named the CFA Institute, released a white paper discussing a wide range of potential influences on the objectivity of brokerage-firm research.¹³ The white paper also set forth recommendations for a more objective research environment, including: (1) brokerage firm management must foster a corporate culture that fully supports independence and objectivity; (2) firms must establish or reinforce separate reporting structures so that investment banking can never influence a research report or investment recommendation; (3) firms should implement compensation arrangements that do not link analysts' compensation to investment banking work; and (4) firms should require public disclosure of actual conflicts of interest to investors.¹⁴

However, the guidelines set forth by the industry associations lacked the force and effect of law. Moreover, some lawmakers felt the voluntary industry efforts were inadequate in scope. As Congressman Richard Baker remarked on the second day of hearings before the Subcommittee, "[T]he existing industry association best-practices proposal doesn't go far enough to address the problems, nor, I might add, do subsequent actions taken by individual firms"¹⁵ Congressman John LaFalce expressed that "more disclosure of these conflicts, in itself will not suffice to protect the individual investor."¹⁶

B. Summary of Rule Filings and Other Regulatory Actions

1. NASD/NYSE Rule Filings

The SROs enacted the research analyst conflict rules in two primary tranches and, more recently, adopted additional amendments prohibiting analysts from participating in road shows. *See* Exhibit A for the complete text of the SRO Rules. In addition, the SROs supplemented their rulemaking with two joint memoranda that provided interpretive guidance to their members on a number of issues. *See* Exhibits B and C for the joint interpretive memoranda. The NASD and NYSE rules and interpretations are virtually identical and are intended to operate uniformly.

¹² *Id.*

¹³ *See Preserving The Integrity of Research*, Association for Investment Management and Research (July 2001), and CFA Institute Press Release, *Global Investment Association AIMR Issues Report On Analyst Objectivity* (July 11, 2001).

¹⁴ *Id.*

¹⁵ *Analyzing the Analysts* at 210 (opening statement of Honorable Richard H. Baker, Chairman).

¹⁶ *Id.* at 219 (statement of Honorable John J. LaFalce, Ranking Committee Member).

Round 1 Amendments

In February 2002, the SROs filed the first round of proposed SRO Rules (“Round 1 Amendments”) – amendments to NYSE Rules 351 (“Reporting Requirements”) and 472 (“Communications with the Public”) and new NASD Rule 2711 (“Research Analysts and Research Reports”)¹⁷ – which implemented basic reforms to separate research from investment banking and to provide more extensive disclosure of conflicts of interest in research reports and public appearances.

Generally, the Round 1 Amendments, approved by the SEC on May 10, 2002,¹⁸ achieved the following:

- imposed structural reforms to increase analyst independence, including prohibiting investment banking personnel from supervising analysts or approving research reports;
- prohibited offering favorable research to induce investment banking business;
- prohibited research analysts from receiving compensation based on a specific investment banking transaction;
- required disclosure of financial interests in covered companies by the analyst and the firm;
- required disclosure of existing and potential investment banking relationships with subject companies;
- imposed quiet periods for the issuance of research reports after securities offerings managed or co-managed by a member;
- restricted personal trading by analysts;
- required disclosure in research reports of data and price charts that help investors track the correlation between an analyst’s rating and the stock’s price movements; and
- required disclosure in research reports of the distribution of buy/hold/sell ratings and the percentage of investment banking clients in each category.

The Round 1 Amendments were phased-in incrementally to provide members time to implement necessary policies, procedures, systems and other measures to comply with the new

¹⁷ On February 8, 2002, NASD filed SR-NASD-2002-021. The NYSE filed SR-NYSE-2002-09 on February 27, 2002. On March 7, 2002, NASD filed Amendment No. 1 to SR-NASD-2002-021. The proposals were published for comment in the Federal Register on March 14, 2002. See Securities Exchange Act Release No. 45526 (Mar. 8, 2002), 67 FR 11526 (Mar. 14, 2002). On May 1, 2002, NASD filed Amendment No. 2 to SR-NASD-2002-021, and the NYSE filed Amendment No. 1 to SR-NYSE-2002-09.

¹⁸ See Securities Exchange Act Release No. 45908 (May 10, 2002), 67 FR 34968 (May 16, 2002) (order approving SR-NYSE-2002-09 and SR-NASD-2002-021).

requirements. Most provisions of the SRO Rules went into effect on July 9, 2002; others became effective on September 9, 2002 or November 6, 2002.¹⁹

Round 2 Amendments and Sarbanes-Oxley

On July 29, 2003, the SEC approved a second set of amendments to the SRO Rules (“Round 2 Amendments”)²⁰ that achieved two purposes. First, the Round 2 Amendments implemented SRO initiatives to further promote analyst objectivity and transparency of conflicts in research reports. The need for some of these additional measures had come to light in the course of joint sweeps undertaken by the SROs and SEC to examine members’ research practices for compliance with industry regulations.²¹ Among the most significant SRO initiatives included in the Round 2 Amendments were provisions that:

- further insulated analyst compensation from investment banking influence by requiring that a compensation committee, without investment banking representation, review and approve compensation of research analysts and that such compensation be based on the quality of research produced;
- prohibited analysts from participating in the solicitation of investment banking business;
- prohibited analysts from issuing a research report or making a public appearance concerning a subject company around the time of a lock-up expiration, termination or waiver;
- required members to publish a final research report when they terminate coverage of a subject company and provide notice of such termination;
- imposed registration, qualification and continuing education requirements on research analysts (detailed in Section II below); and
- created an exemption from certain rule provisions for firms that engage in limited underwriting activity.

Second, the Round 2 Amendments implemented changes mandated by the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”).²² Sarbanes-Oxley required adoption by July 30, 2003 of rules “reasonably designed to address conflicts of interest that can arise when securities analysts recommend equity securities in research reports and public appearances,” and set forth certain specific rules to be promulgated. Many of those rules had already been adopted in the first round

¹⁹ Certain small firms with limited underwriting activity were granted delayed effectiveness from certain provisions of the SRO Rules until July 2003, at which time a limited exemption was adopted and codified.

²⁰ Securities Exchange Act Release No. 48252 (July 29, 2003), 68 FR 45875 (Aug. 4, 2003) (order approving SR-NYSE-2002-49 and SR-NASD-2002-154).

²¹ In April 2002, the SROs and the SEC established a Joint Task Force to review practices of designated firms with regard to research reports and recommendations on issuers for which firms had provided or sought investment banking services from January 1999 through April 2002.

²² See Section 15D(a) of the Exchange Act, 15 U.S.C. 78o-6.

of SRO rulemaking. The Round 2 Amendments therefore implemented those specific Sarbanes-Oxley rules that did not already exist and conformed the language of the SRO Rules as necessary. Most notably, the Round 2 Amendments satisfied the following Sarbanes-Oxley requirements:

- modified the definition of “research report” to delete the requirement that the communication contain a recommendation;
- extended quiet periods after securities offerings to all firms that participated in the offering as an underwriter or dealer;
- required disclosure of a client relationship and non-investment banking compensation received by a firm from a covered company; and
- prohibited retaliation against research analysts for publishing unfavorable research on an investment banking client.

As with the Round 1 Amendments, the Round 2 Amendments were phased-in incrementally. Most provisions went into effect on September 29, 2003, while certain other provisions did not become effective until October 27, 2003 or January 26, 2004.²³

Recent Amendment Prohibiting Analyst Participation in Road Shows

On April 21, 2005, the Commission approved an amendment to the SRO Rules that prohibits research analysts from participating in a road show related to an investment banking services transaction and from communicating with current or prospective customers in the presence of investment banking department personnel or company management about such an investment banking services transaction.²⁴ Additionally, the amendment prohibits investment banking personnel from directing a research analyst to engage in sales and marketing efforts and other communications with a current or prospective customer about an investment banking services transaction.

By prohibiting research analysts from participating in road shows and communicating with customers in the presence of investment bankers or company management, the amendment further reduces pressure on research analysts to give an overly optimistic assessment of a particular transaction. It also removes any suggestion to investors in attendance at a road show that the analyst will give positive coverage to the issuer or that the analyst endorses all of the views expressed by the company or investment banking department personnel.

²³ In 2004, the SROs delayed the effectiveness of certain disclosure provisions in the rules until April 26, 2004. See Securities Exchange Act Release No. 49119 (Jan. 23, 2004), 69 FR 4337 (Jan. 29, 2004) (notice of immediate effectiveness of SR-NASD-2004-003 and SR-NYSE-2004-01).

²⁴ Securities Exchange Act Release No. 51593 (Apr. 21, 2005), 70 FR 22168 (Apr. 28, 2005) (order approving SR-NASD-2004-141 and SR-NYSE-2005-24). As defined under NASD Rule 2711(a)(2) and NYSE Rule 472.20, “investment banking services” includes, without limitation, acting as an underwriter in an offering for the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital, equity lines of credit, PIPEs (private investment, public equity transaction), or similar investments; or serving as placement agent for the issuer.

The amendment expressly permits research analysts to educate investors and member personnel about a particular offering or other transaction, provided the communication occurs outside the presence of company management and investment banking department personnel. Such permissible communications to investors and internal personnel must be fair, balanced and not misleading, taking into account the overall context in which such communications are made.²⁵

The amendment became effective on June 6, 2005.

2. Joint Memoranda and Interpretations

The Commission noted in its approval order of May 10, 2002 that the SROs would provide interpretive guidance on certain provisions of the SRO Rules. Accordingly, contemporaneous with the first effective date of the new rules, the SROs issued a joint memorandum ("July 2002 Joint Memorandum") providing interpretive guidance on a number of topics, including: the definitions of "investment banking services" and "research report"; public appearances; quiet periods; the applicability of the SRO Rules to third-party research; the prohibition on certain forms of research analyst compensation; restrictions on personal trading by analysts; and requisite disclosures, including the distribution of ratings and price charts (*see* Exhibit B).²⁶

In March 2004, the SROs issued a second joint memorandum ("March 2004 Joint Memorandum") to provide further interpretive guidance on the amended SRO Rules (*see* Exhibit C).²⁷ That memorandum generally addressed issues related to the definition of "research report"; the applicability of the "gatekeeper," blackout and quiet periods provisions; and the scope and prominence of certain disclosure requirements.

The SROs continue to work together on interpretive issues.

3. Other Regulatory Initiatives

Regulation AC

On February 6, 2003, the SEC adopted Regulation Analyst Certification ("Regulation AC"), which took effect on April 14, 2003.²⁸ Regulation AC generally requires broker-dealers to include in a research report certifications by the analysts who are principally responsible for

²⁵ The prohibition on research analysts' participation in road shows does not prohibit certain analysts' communications that are permitted under the federal securities laws. *See* 17 CFR 230.137, 230.138 and 230.139 (research reports issued in accordance with Rules 137, 138 and 139 under the Securities Act of 1933).

²⁶ *See* NYSE Information Memo No. 02-26 (June 26, 2002), and NASD *Notice to Members* 02-39 (July 2002).

²⁷ *See* NYSE Information Memo No. 04-10 (Mar. 9, 2004), and NASD *Notice to Members* 04-18 (Mar. 2004).

²⁸ *See* Regulation Analyst Certification, Securities Exchange Act Release No. 47384 (Feb. 20, 2003), 68 FR 9482 (Feb. 27, 2003). In August 2003 and April 2005, the SEC staff issued additional guidance regarding Regulation AC in a series of questions and answers on the SEC Web site. *See* SEC Responses to Frequently Asked Questions Concerning Regulation Analyst Certification, <http://www.sec.gov/divisions/marketreg/mregacfaq0803.htm>.

preparing the report (1) that the recommendations or views expressed in the research report accurately reflect the analysts' personal views about the subject securities and issuers, and (2) whether any part of the analysts' compensation was, is, or will be directly or indirectly related to any specific recommendations or views expressed in the research report. In addition, research analysts must certify to the accuracy of statements made in public appearances and that no part of the research analysts' compensation is tied to statements made during the public appearance. If the broker-dealer does not obtain such certification by the analysts, it must disclose this fact and promptly notify its designated examining authority. The SROs continue to examine for compliance with Regulation AC.

Unlike the SRO Rules, Regulation AC applies to both fixed-income and equity research reports and the analysts who are primarily responsible for preparing those reports. Similar to the SRO Rules, Regulation AC broadly defines a "research report" as "a written communication (including an electronic communication) that includes an analysis of a security or an issuer and provides information reasonably sufficient upon which to base an investment decision."

4. Enforcement Proceedings

As the SROs engaged in rulemaking to manage and eradicate existing research conflicts, regulators brought enforcement proceedings to redress past misconduct in the area.

Merrill Lynch Settlement

In May 2002, as part of a settlement with the New York Attorney General, Merrill Lynch agreed to adopt certain changes to its equity research and investment banking activities. Among other things, Merrill Lynch agreed to completely separate analyst compensation from investment banking, prohibit investment banking input into analysts' compensation and disclose in all research reports whether it has received or is entitled to receive any compensation from a covered company over the past 12 months.

The Global Settlement

On April 28, 2003, the SEC, NYSE, NASD, NASAA and the New York Attorney General's Office announced that they had reached an agreement (the "Global Settlement") with ten investment banking firms settling actions alleging fraudulent or misleading research. The United States District Court for the Southern District of New York approved the Global Settlement on October 31, 2003²⁹ and an amendment to the agreement was approved in September 2004.³⁰

The Global Settlement differs in structure from the SRO Rules. The former generally prohibits all communications between research and investment banking personnel, with certain express exceptions. In contrast, the SRO Rules permit all communications that are not expressly prohibited. But the key provisions of the Global Settlement and the SRO Rules are essentially

²⁹ See SEC Litigation Release No. 18438, 2003 SEC LEXIS 2601 (Oct. 31, 2003).

³⁰ See 03 Civ. 2941 (WHP), 2004 U.S. Dist. LEXIS 19149 (S.D.N.Y. Sept. 24, 2004) (amendments to Addendum A).

the same; the few differences are noted below. A chart comparing the provisions is included as Exhibit D.

The common provisions include prohibitions on review and approval of research by investment banking; prohibitions on research analysts from soliciting investment banking business and participating in sales and marketing activities; requirements for the termination of coverage; general requirements that the compensation of a research analyst primarily responsible for the preparation of the substance of a research report be reviewed and approved by a member firm committee without investment banking representation that reports to the Board of Directors or the senior chief executive officer; and increased disclosure and transparency of potential and actual conflicts of interests and of issues related to the performance of research analysts, such as ratings, price targets and an explanation of the firm's rating system.

Some Global Settlement terms have not been explicitly or implicitly incorporated into the SRO Rules. For example, the Global Settlement requires that the work of the compensation committee be reviewed by an oversight committee of research management. Other Global Settlement requirements not incorporated by the SROs are physical separation between research analysts and investment banking; the requirement that research have its own dedicated legal and compliance staff; and requirements for firms to procure and make available for their clients independent research on listed companies that they cover.

Additionally, comparable SRO Rules and Global Settlement definitions differ in degree and scope. The definitions of "research reports" and "research analysts" are illustrative. The SRO Rules, for example, apply to all research reports produced by the SROs' members, irrespective of where or to whom they are distributed; however, the Global Settlement limits its definition of "research report" to communications furnished to investors in the United States. Also, the SRO Rules' definition of "research analyst" – the same as mandated by the Sarbanes-Oxley Act – is broader than the Global Settlement's definition of "Research Personnel," which is limited to those individuals whose primary job is the preparation of research reports.

The SRO staffs address in Section V whether they recommend incorporating additional Global Settlement terms into the SRO Rules or making any other conforming changes.

II. REGISTRATION AND QUALIFICATION REQUIREMENTS

A. Series 86/87 Examinations

As part of the Round 2 Amendments, the SEC approved rules requiring registration and qualification requirements for research analysts. The SRO Rules require an associated person³¹ who functions as a research analyst on behalf of a member to register as such and pass a qualification examination. Those rules are intended to ensure that research analysts possess a certain competency level to perform their jobs effectively and in accordance with applicable rules and regulations. In the context of this requirement, the SRO Rules define "research analyst" as "an associated person who is primarily responsible for the preparation of the

³¹ See SR-NYSE-2005-24 amending the definition of "research analyst" in NYSE Rules 344.10 and 472.40 to include "associated persons." NASD rules already separately defined "associated person."

substance of a research report or whose name appears on a ‘research report,’” as that term is defined in the SRO Rules.

The SROs jointly developed and implemented the Research Analyst Qualification Examination (Series 86/87). The examination consists of an analysis part (Series 86) and a regulatory part (Series 87). Prior to taking either the Series 86 or 87, a candidate also must have passed the General Securities Registered Representative Examination (Series 7), the Limited Registered Representative Examination (Series 17), or the Canada Module of Series 7 (Series 37 or 38). Persons who were functioning as research analysts on the effective date of March 30, 2004 and submitted a registration application to NASD by June 1, 2004, had until April 4, 2005 to meet the registration requirements. There was no grandfather provision. The one-year grace period was intended to provide these analysts sufficient time to study and pass the examination without causing undue disruption in carrying out their responsibilities to their member firm and its customers.

B. Exemptions

The SRO Rules provide three exemptions from the Series 86 examination. First, there is an exemption for research analysts who have passed Levels I and II of the Chartered Financial Analyst (“CFA”) examination and have either (1) completed the CFA Level II within 2 years of application or registration, or (2) functioned as a research analyst continuously since having passed the CFA Level II.³² A second exemption is available to research analysts who have passed Levels I and II of the Chartered Market Technician Examination and produce only “technical research reports” as that term is defined under the SRO Rules.³³

A third exemption – from both the Series 86 and Series 87 – is available to “associated persons” of a member who are employed by that member’s foreign affiliate but who produce research on behalf of the U.S. member. The SROs created this third exemption in response to requests from some members with global research operations that had difficulty ascertaining whether certain foreign research analysts whose work contributed to the member’s research report were “associated persons” who must meet the registration and qualification requirements under the SRO Rules.

To be eligible for the exemption, three primary conditions must be met: (1) a foreign analyst must comply with the registration and qualification requirements or other standards in an SRO-approved foreign jurisdiction whose regulatory scheme reflects a recognition of principles that are consonant with the SRO Rules and qualification standards; (2) the U.S. member must apply all of the other SROs rules and other member firm standards to the research produced by the foreign affiliate and foreign research analysts that qualify for, and rely upon, the exemption; and (3) the U.S. member must include a specific disclosure that the research report has been prepared in whole or part by foreign research analysts who may be associated persons of the member who are not registered/qualified as a research analyst with the NYSE or NASD, but instead have

³² See Securities Exchange Act Release No. 49464 (Mar. 24, 2004), 69 FR 16628 (Mar. 30, 2004) (order approving SR-NYSE-2004-03 and SR-NASD-2004-020).

³³ See Securities Exchange Act Release No. 51240 (Feb. 23, 2005), 70 FR 10451 (Mar. 3, 2005) (notice of immediate effectiveness of SR-NYSE-2005-12 and SR-NASD-2005-022).

satisfied the registration/qualification requirements or other research-related standards of a foreign jurisdiction that have been recognized for these purposes by the NYSE and NASD.

Eligibility for the exemption in no way bears upon whether the foreign research analyst is an associated person of the member. And to the extent that a member can determine that a foreign research analyst is *not* an “associated person,” there is no requirement to satisfy any of the SRO Rules, including the registration and qualification requirements.

Currently, the following jurisdictions satisfy the applicable SRO standards noted above: China, Hong Kong, Japan, Malaysia, Singapore, Thailand and the United Kingdom. The SROs only considered those jurisdictions submitted by the members that requested the exemption but agreed to consider additional jurisdictions on a case-by-case basis, as requested.³⁴

C. Supervisory Requirements

NASD has an additional rule that requires supervisors of research analysts to pass the Series 87 examination or the NYSE Series 16 Supervisory Analyst Examination. Those who oversee the *content* of research reports must have passed either the Series 87 or the Series 16 examination. A registered principal (Series 24) who has also passed either the Series 87 or the Series 16 examination must supervise the conduct of both the Series 16 Supervisory Analyst and the research analyst. The rule became effective on August 2, 2005.³⁵ NYSE Rule 472(a)(2) requires that a supervisory analyst acceptable under NYSE Rule 344 approve research reports.

D. Statistics

Between April 1, 2004 and November 30, 2005, 5,599 research analysts and 418 research principals had satisfied the applicable registration and qualification requirements. The Series 86 exam was attempted 6,158 times, with an overall pass rate of 74.9%, and the Series 87 exam was attempted 8,259 times, with an overall pass rate of 89.6%. During the same period, 2,375 CFA exemptions and 34 technical analyst exemptions were granted.

III. EXAMINATIONS, SWEEPS AND ENFORCEMENT ACTIONS

The SROs continue to closely examine for compliance with the SRO Rules and rigorously pursue enforcement actions for violations of these rules. The area of research analyst conflicts remains a high priority component of the SROs’ examination and enforcement programs.

A. NASD Summary

1. Member Regulation

³⁴ The SROs will notify their membership in the event additional jurisdictions are approved.

³⁵ Securities Exchange Act Release No. 50162 (Aug. 6, 2004), 69 FR 50406 (Aug. 16, 2004) (order approving SR-NASD-2004-078).

As the SRO Rules became effective, NASD's Member Regulation Department incorporated into its routine examination program an inspection for compliance with NASD Rule 2711 and SEC Regulation AC.

Between July 2002 and November 30, 2005, NASD initiated 467 examinations reviewing firms for compliance with Rule 2711 and Regulation AC. In the course of these examinations, NASD found 110 violations of Rule 2711 and 25 violations of Regulation AC. Specifically, the Rule 2711 violations have involved: (1) failure to have adequate procedures in place to supervise the activities of research analysts with respect to conflicts of interest, in violation of Rule 2711(i) (47 of 467 examinations); (2) failure to adequately comply with the disclosure requirements regarding research reports and public appearances, in violation of Rule 2711(h) (24 of 467 examinations); (3) failure to file the Annual Attestation, in violation of Rule 2711(i) (20 of 467 examinations); (4) personal trading of the subject companies' securities in the analyst's account within the restricted time period, in violation of Rule 2711(g) (10 of 467 examinations); and (5) failure to comply with restrictions on communications with the subject company, in violation of Rule 2711(c) (9 of 467 examinations).

Of the 135 violations of Rule 2711 and Regulation AC found to date, 27 have resulted or are expected to result in an Acceptance, Waiver and Consent, seven have resulted in a formal complaint, 18 have resulted in a compliance conference, 81 have resulted in a Letter of Caution, and two remain under investigation.

2. Enforcement

As of November 30, 2005, NASD Enforcement has settled 29 cases involving Rule 2711 violations and two cases involving violations of Rule 1050, the analyst registration rule. By far, the vast majority of settled Enforcement actions have involved violations of the disclosure requirements of Rule 2711(h), encompassing over 265 research reports. Specific violations of this provision include: (1) failure to disclose ownership of shares of subject companies; (2) failure to disclose compensation for investment banking services from the subject company; (3) failure to disclose market making activity; (4) use of conditional language in making the requisite disclosures; (5) failure to provide sufficient price charts; (6) failure to disclose the distribution of buy, hold and sell recommendations; (7) failure to provide information about the valuation methods used; (8) failure to define recommendations; and (9) failure to provide disclosures required by Rule 2210.

Other settled Enforcement cases have involved such violations of Rule 2711 as (1) failure to maintain supervisory procedures pursuant to Rule 2711(i) (113 research reports); (2) communications with subject companies in violation of Rule 2711(c) (17 research reports); and (3) failure to abide by the personal trading restrictions under Rule 2711(g) (21 research reports). In addition, two cases involved analysts offering favorable research reports in exchange for compensation in violation of Rule 2711(e), and one case involved a firm's failure to provide notice of termination of coverage and issue final research reports with respect to seven subject companies, in violation of Rule 2711(f).

Sanctions in the settled Enforcement cases have included fines ranging from \$10,000 to \$50,000, disgorgement, suspensions and bars in all capacities. In addition, NASD Enforcement has settled

with two firms for failure to timely apply for research analyst designation in violation of Rule 1050. These two cases involved 56 analysts and 325 research reports, and each firm was censured and fined (one in the amount of \$100,000; the other, \$150,000).

There are currently two pending complaints against firms and a number of open investigations involving suspected violations of Rule 2711. These matters involve many of the same compliance issues discussed above, including allegations of failure to meet disclosure obligations and of transgressing the personal trading restrictions. In addition, in summer 2005, the SROs launched a joint sweep of 30 firms to review their compliance with NASD Rules 2711 and 1050 and NYSE Rule 344 in the context of research prepared on behalf of the members by foreign analysts. That review is ongoing.

3. Advertising

Although members need not file research reports with NASD's Advertising Regulation Department, they do constitute "communications with the public" under NASD's advertising rules. As such, NASD's Advertising Regulation Department has conducted two sweeps since NASD Rule 2711 was implemented. In 2002, a sweep of 28 firms was conducted to determine whether firms had made a good faith effort to comply with Rule 2711 and identify any new interpretive issues that might arise. Firms were notified of any compliance shortcomings, with the expectation that those deficiencies promptly would be remedied.

In 2004, NASD's Advertising Regulation Department conducted a second sweep of the ten Global Settlement firms and specifically requested information about their equity research reports (including access to their Web sites), samples of each type of report they used and explanatory material about their ratings. As part of this second sweep, examiners revisited the spot check conducted in 2002 to determine whether firms had made revisions as indicated.

This subsequent review revealed continued deficiencies in several areas. First, some firms were unclear in describing their ratings methodology. For example, some firms failed to explain a two-pronged approach they employed to assess a sector and an individual issuer within that sector. Examiners flagged such reports for failure to comply with the clarity requirement of Rule 2711(h)(10) because the absence of clear ratings descriptions could lead to misconceptions by investors about the firm's actual view of the issuer. Second, some members failed to provide clear disclosure presentations; for example, they used complex systems of footnotes inconsistently and indefinite disclosures (e.g., "may conduct investment banking"). Examiners also identified such practices as violations of Rule 2711's clarity standard. Third, some members failed to use the terms "buy," "hold," and "sell" in the ratings distribution chart, as required by Rule 2711(h)(5). Finally, some members used language that seemed to disclaim responsibility for information in the report about the member firm, including required disclosures of certain conflicts.

NASD's Advertising Regulation Department does not have authority to bring formal actions against members and thus referred to NASD Enforcement those cases where it recommended that further action be considered.

B. NYSE Summary

1. Member Firm Regulation

The NYSE currently has 348 members and member organizations of which 217 are conducting a public business and/or issuing research. The NYSE incorporated the SRO Rule requirements into its exam scope for routine examinations of members and member organizations by Member Firm Regulation ("MFR"), following the effective dates of the SRO Rules in 2002 and 2003.³⁶

MFR examiners conducted a series of reviews investigating member and member organization compliance with the SRO Rules and SEC Regulation AC. Between August 2002 and October 2005, MFR conducted a total of 296 examinations.³⁷ NYSE examiners cited a total of 75 firms with a total of 271 findings for non and/or partial compliance with the SRO Rules and Regulation AC.³⁸ The findings were distributed as follows: 26 in 2002; 62 in 2003; 152 in 2004; and 31 in 2005.

Specifically, the NYSE examination findings included: (1) failure to clearly and prominently state in research reports in the proper format the disclosures required by the SRO Rules; (2) failure to adhere to the disclosure and record maintenance requirements for associated persons making public appearances; (3) failure to comply with record maintenance requirements evidencing the disclosures in connection with recommendations of securities in print media, interviews, newspaper articles or broadcasts; (4) failure to comply with restrictions on trading activities for associated persons; (5) failure to have legal or compliance personnel intermediate written communications between non-research personnel and research personnel concerning the content of research reports; (6) inclusion of price targets, rating summaries or research ratings information in a draft of a research report sent to a subject company; (7) executing changes to research reports after sending the report to a subject company without proper approval by legal and compliance; (8) allowing research analysts to work under the supervision or control of investment banking department personnel; (9) offering favorable research for business; (10) failure to maintain written procedures for compliance with the SRO Rules; and (11) failure to have a committee in place to review and approve analyst compensation.

2. Enforcement

Between August 2002 and November 2005, 13 examination findings were referred to Enforcement from MFR for SRO Rule violations.³⁹ As discussed in more detail below, many of

³⁶ Only members and member organizations that conducted a public business and/or issued research were examined for compliance with the SRO Rules.

³⁷ The breakdown of examinations was as follows: 21 firms in 2002, 85 firms in 2003, 140 firms in 2004 and 50 firms in 2005. In many instances the same firm was examined in successive years.

³⁸ Of the 271 findings, 22 involved Regulation AC. The 22 Regulation AC findings involved: failures by member organizations to maintain clear and prominent disclosures of research analyst certifications; failures to maintain records regarding public appearances of research analysts; failures to specify on the front page of reports the pages on which analyst certifications can be found; failures to have written policies and procedures to prevent inappropriate influences over research analysts; expired or missing certifications; failures with respect to terminated coverage; and missing attestations.

³⁹ There were also referrals based on findings for Rule 472 prior to its amendment.

these findings are currently the subject of NYSE Enforcement investigation/action, and many have been completed. Recently, a Hearing Panel Decision (“HPD”)⁴⁰ announced a disciplinary action involving violations of the SRO Rules gatekeeper provisions.⁴¹ This case resulted in consent to censure and a \$150,000 fine. Additionally, a member organization has recently consented in a Stipulation of Facts and Consent to Penalty to a fine of \$1.5 million in a matter that included, among other things, having a research analyst participate in a road show, and a research analyst giving statements that were not fair and balanced.

There are a number of cases that are now under investigation by NYSE Enforcement. The cases include: research analysts selectively disclosing material non-public information; improper disclosures in research reports; research analysts trading in securities in violation of the SRO Rule blackout prohibitions; research analysts expressing opinions privately about securities they cover that were inconsistent with their published research reports; improper influence of investment banking on research compensation; lack of supervisory analyst qualifications; initiating coverage of a stock during a quiet period; violations of information barrier provisions; violations of the gatekeeper provisions; and books and records violations.

As noted above, there is also an investigation of approximately 30 firms being jointly conducted by the SROs to determine whether firms are in compliance with the requirement to register foreign research analysts who participate in the preparation of member research.

IV. IMPACT OF RULES: ACADEMIC STUDIES AND MEDIA REPORTS

Academic studies and media reports provide both empirical and anecdotal evidence regarding the impact of the SRO Rules,⁴² and most have concluded that the rules have helped to address the conflict-of-interest issues that previously compromised the objectivity and reliability of research. Indeed, as the author of one study states:

[T]he new regulations were successful in their objectives of curbing the excessive optimism driven by the conflicts of interest . . . The distribution of recommendations is now very balanced between buy and sell recommendations . . . and the link between the presence of underwriting business and excess optimism in recommendations was removed.⁴³

⁴⁰ See Exchange HPD 04-136 (NYSE Aug. 11, 2004).

⁴¹ The firm was in violation of NYSE Rule 472(b)(4), which prohibits member firms from providing a subject company with draft research reports containing the research summary, rating or price target information.

⁴² We note that some studies and news articles refer only to the impact of the Global Settlement. Since the key provisions of the Global Settlement closely track those of the SRO Rules, we believe those studies and news articles that address the impact of the settlement terms are a fair proxy for the impact of the SRO Rules.

⁴³ Leonardo Madureira, *Conflicts of Interest, Regulations, and Stock Recommendations*, at 4 (Nov. 2004) (Working paper, Wharton School, University of Pennsylvania) (the “Madureira Study”). See also, e.g., Ohad Kadan, Tzachi Zach & Rong Wang, *Are Analysts Still Biased? The Effect of the Global Settlement and Regulation FD*, Abstract (Mar. 2005) (Working paper, John M. Olin School of Business, Washington

While many other studies and media stories similarly support the effectiveness of the SRO Rules, some contend that the impact has been minimal and that certain conflicts persist. Briefly summarized below are findings and conclusions from a survey of pertinent studies and news articles.

Research Is More Balanced

(a) Changes in ratings distributions

Several academic studies have found that the percentage of buy recommendations decreased and the percentage of sell and hold recommendations increased following adoption of the SRO Rules and Global Settlement. These ratings distribution trends suggest that research analysts are issuing more balanced stock recommendations.

For example, one study found that the percentage of buy recommendations peaked at 74% of all recommendations at the end of the second quarter of 2000 and decreased to 42% of all recommendations at the end of June 2003.⁴⁴ During the same period, sell recommendations increased from 2% to 17% of all recommendations, while hold recommendations increased from 24% to 41%.⁴⁵

The Barber Study concludes that “taking a closer look at the trends in 2002 makes clear that [the SRO Rules]⁴⁶ likely did play a role in analysts’ shift away from buy recommendations.”⁴⁷ Indeed, the study notes that the most pronounced changes in ratings distributions occurred during the weeks leading up to the September 9, 2002 deadline for implementing the ratings distribution disclosure requirement under the SRO Rules.⁴⁸ The single biggest change occurred on Sunday, September 8, 2002 when buy recommendations decreased from 57% to 53% and sell recommendations increased from 8% to 11%.⁴⁹ Adjusting for certain factors, the authors calculate that there was a greater decrease in the percentage of buys and a greater increase in the percentage of sells and holds following implementation of the SRO Rules than otherwise would have been expected.⁵⁰

University) (the “Kadan Study”) (“the Global Settlement was effective in reducing conflicts of interests [sic] between research and investment banking departments in financial services firms”).

⁴⁴ Brad Barber, Reuven Lehavy, Maureen McNichols & Brett Trueman, *Buy, Holds, And Sells: The Distribution Of Investment Banks’ Stock Ratings And The Implications For The Profitability Of Analysts’ Recommendations*, at 3, 12 (Sept. 2005) (Working paper, Graduate School of Management, University of California, Davis, Ross School of Business, University of Michigan, Graduate School of Business, Stanford University and Anderson Graduate School of Management, University of California, Los Angeles) (the “Barber Study”).

⁴⁵ *Id.*

⁴⁶ While the authors refer solely to NASD Rule 2711, they state that all conclusions apply to NYSE Rule 472 as well. *Id.* at 1, n.1.

⁴⁷ *Id.* at 13.

⁴⁸ *Id.*

⁴⁹ *Id.* at 13-14.

⁵⁰ *Id.* at 15.

The Madureira Study found similar results. That study looked at analyst recommendations for the period July 1995 through December 2003 and found that prior to the SRO Rules and Global Settlement, the bulk of consensus recommendations were concentrated in the strong buy and buy categories (accounting for 60% or more of the stocks in the sample) and sell recommendations were “virtually absent.”⁵¹ However, from July 2002 through December 2003, “a completely different pattern emerges.”⁵² For example, in September 2002, the fraction of stocks in the pessimistic category (sell and strong sell) jumped from 3% to approximately 20%.⁵³ The author found similar patterns with respect to initiation of coverage and ratings upgrades and downgrades, finding that brokerage houses leaned less toward optimistic ratings after the new regulations took effect.⁵⁴

Both the Madureira and Kadan studies found the most decided changes in ratings distributions at firms that maintained or pursued investment banking transactions with covered companies. The Madureira Study found that, prior to the SRO Rules and Global Settlement, the presence of an underwriting business with the subject company implied a 50% increase in the odds that a new recommendation would be optimistic.⁵⁵ However, the study found that the effect has “largely disappeared” after the new regulations took effect.⁵⁶

The Kadan Study similarly found that regulatory measures enacted to separate research from investment banking have resulted in less optimistic research by analysts whose firms had or sought investment banking business with companies the analyst covered (an “affiliated” analyst). The study found that prior to the Global Settlement, affiliated analysts generated more optimistic recommendations and long-term growth forecasts than their unaffiliated counterparts; however, those differences have now been eliminated.⁵⁷ Consistent with the Barber and Madureira studies, the Kadan Study found a decrease in the percentage of affiliated analysts’ buy recommendations and an increase in their hold and sell recommendations following the Global Settlement.⁵⁸ The authors found a similar but less dramatic shift in ratings distribution with respect to unaffiliated analyst recommendations.⁵⁹

In a subsequent paper combining the Madureira and Kadan studies, the authors explained that analysts changed their behavior in an asymmetric way after adoption of the SRO Rules.⁶⁰

⁵¹ Madureira Study at 17-18.

⁵² *Id.* at 18.

⁵³ *Id.*

⁵⁴ *Id.* at 21.

⁵⁵ *Id.* at 4.

⁵⁶ *Id.*

⁵⁷ Kadan Study at 4, 26.

⁵⁸ *Id.* at 21-22, Table 6.

⁵⁹ *Id.* at 22.

⁶⁰ Ohad Kadan, Leonardo Madureira, Rong Wang & Tzachi Zach, *Conflicts of Interest and Stock Recommendations - The Effects of the Global Settlement and Recent Regulations*, at 25 (July 2005) (Working paper, John M. Olin School of Business, Washington University and Weatherhead School of Management, Case Western Reserve University).

Analysts now behave similarly when deciding whether to post an optimistic recommendation, and the likelihood of receiving an optimistic recommendation no longer depends on whether the analyst's firm participated in an equity offering for the subject company.⁶¹ However, affiliated analysts are still reluctant to issue pessimistic recommendations for companies that have had a recent equity offering.⁶²

One recent academic study found lesser changes in ratings distributions since the Global Settlement.⁶³ The author analyzed data for each of the ten Global Settlement firms and found that prior to the settlement, between 28.4% (in 2002) to 39.8% (in 2000) of recommendations across the ten firms carried a firm's highest rating. After the settlement, top recommendations comprised between 31.8% (in 2003) and 39% (in 2004) of all recommendations.⁶⁴ The percentage of the most negative recommendations decrease from a pre-settlement range of 24.1% (in 2000) to 32.4% (in 2002) to a post-settlement range of 18.8% (in 2003) and 12.8% (in 2004).⁶⁵ The author notes that the numbers may be explained by factors other than bias, such as analysts' accurate and unbiased expectation of investment value in the post-settlement period or the fact that analysts may intentionally have skewed their coverage post-settlement to stocks that they expect will outperform the market.⁶⁶

A number of news articles buttress the conclusion that sell-side analysts are less biased after implementation of the SRO Rules and/or the Global Settlement and now are more prone to issue downgrades and sell recommendations. According to a recent article, "sell-side analysts do appear to be more discerning," noting that sell ratings, which accounted for less than 2% of the ratings published on Wall Street in 2002, were up to between 10% and 15% of the ratings at all major brokerages.⁶⁷ Another article reported in August 2003 that sell recommendations represented 15-25% of overall opinions, attributing the trend at least in part to adoption of the SRO Rules.⁶⁸ According to *The Wall Street Journal*, at one point in 2000, 95% of the stocks in the S&P 500 had no sells at all and no stock had more than one sell rating; today, only 38% are without sell recommendations, 62% have at least one sell and 9% have five sells or more.⁶⁹

⁶¹ *Id.*

⁶² *Id.* at 25-26.

⁶³ Leslie Boni, *Analyzing the Analysts After the Global Settlement*, at 5 (Aug. 25, 2005) (Working paper, University of New Mexico) (the "Boni Study").

⁶⁴ *Id.* at 13.

⁶⁵ *Id.*

⁶⁶ *Id.* at 14.

⁶⁷ Nat Worden, *Mixed Returns on Spitzer Research Settlement*, *The Street.com*, Apr. 22, 2005, <http://www.thestreet.com/markets/natworden/10218183.html>. See also Dan Ackman, *Wall Street Tries To Say 'Sell'*, *Forbes.com*, June 20, 2003, http://www.forbes.com/2003/06/20/cx_da_0620topnews_print.html (in June 2003, 43% of recommendations were buy, 46.6% were hold and 10.5% were sell, compared with June 2000, when 74.6% of all recommendations were buy and only 0.7% were sell); *Facts Without Fiction*, Crystal Research Assoc., LLC, Issue 3 (Winter 2005); *Analysts Say 'Sell' A Lot More Often*, *Reuters News Service*, May 18, 2003, <http://www.chron.com/disp/story.mpl/business/mym/1914061.html>.

⁶⁸ Andrew Leckey, *Dumping Stock Shouldn't Be Such A Hard Sell*, *Chicago Tribune*, Aug. 12, 2003, at C4.

⁶⁹ E.S. Browning, *Analysts Keep Misfiring With 'Sell' Ratings*, *Wall St. J.*, Apr. 11, 2005, at C1.

Some news stories also report that bias still exists, particularly at larger firms with investment banking businesses.⁷⁰ According to one report, the top ten Wall Street firms give a higher percentage of buy ratings – 46% versus 40% – to those companies with which they do investment banking business.⁷¹ Another article reports that many firms still maintain only 0-6% sell recommendations.⁷² Finally, one news article reports that small firms may be slightly more likely to issue buy recommendations than the Global Settlement firms.⁷³

(b) *Correlation between recommendations and earnings forecasts*

A recent academic study attempted to measure research bias after the SRO Rules by examining the relationship between earnings forecasts and recommendation profitability across three groups of sell-side analysts: “top-tier” analysts at the top investment banks, other investment bank analysts and non-investment bank analysts.⁷⁴ Absent bias, the authors believe that there should be a strong correlation between accuracy in predicting earnings and profiting from following analyst recommendations since most recommendations are derived from earnings analysis. The authors further posit that bias is more likely to appear in recommendations than earnings forecasts because analysts’ reputations are tied more closely to accurately predicting earnings.

During the 1993 to 2000 period, the study found a “positive and significant association” between forecast accuracy and recommendation profitability for non-investment bank analysts, but no such relation for top-tier analysts and other investment bank analysts.⁷⁵ The authors suggest that this finding demonstrates that before the SRO Rules, the presence of conflicts at investment banks resulted in overly optimistic recommendations disconnected from earnings forecasts.⁷⁶ However, in the period following the Global Settlement and implementation of the SRO Rules, the study found such positive correlation between earnings forecast accuracy and recommendation profitability for analysts employed by top-tier investment banks, suggesting that “the increased awareness of the conflicts of interest and the regulatory changes might have had their desired effect.”⁷⁷

⁷⁰ See, e.g., Amey Stone, *Yes, Wall Street Research Is Better*, BusinessWeek Online, June 28, 2004, http://businessweek.com/bwdaily/dnflash/jun2004/nf20040628_1253_db014.htm (“some might conclude that bias still exists”).

⁷¹ *Id.*

⁷² Joseph McCafferty, *Reform of Sell-side Research is Creating A Variety of New Headaches for Corporations*, CFO Magazine, May 2003. See also Leckey, *supra* note 68.

⁷³ Susanne Craig, *Research Rules Trickle Down To Small Firms*, Wall St. J. Online, Jan. 18, 2004, <http://online.wsj.com/article/o,,SB107446466140004574,00.html>.

⁷⁴ Yonca Ertimur, Jayanthi Sunder & Shyam V. Sunder, *Measure for Measure: An Examination of the Association between Forecast Accuracy and Recommendation Profitability of Sell-Side Analyst* (Mar. 2005) (Working paper, Graduate School of Business, Stanford University and Kellogg School of Management, Northwestern University) (the “Ertimur Study”).

⁷⁵ *Id.* at 4.

⁷⁶ *Id.* at 2.

⁷⁷ *Id.* at 19.

Research Is More Reliable, Accurate And Informative For Investors

Recent studies and a number of news articles suggest that the quality of research and value to investors has improved since adoption of the SRO Rules. For example, one article reports that the “most important change for the better is in the quality of analysis . . . written commentary in stock reports is more independent, more thought-provoking, and better represents the upside and downside potential for a stock than the bubble era’s much-hyped reports.”⁷⁸ And in numerous interviews, portfolio managers attest to the improvement.⁷⁹ Another article reports that “the investment community is now benefiting from more diverse research strategies, with access to reports that are less restricted and more user-friendly.”⁸⁰ As discussed in more detail below, research has also become more trusted by the market and more reliable and meaningful for investors.

(a) Ratings reflect their plain meanings

The SRO Rules require that ratings be consistent with their plain meanings, and several studies have concluded that ratings indeed are now truer and therefore more predictive for investors. For example, the Kadan Study found that following the Global Settlement, the price reaction in the market to buy recommendations has been “significantly more positive” and the price reaction to hold recommendations has been “significantly less negative.”⁸¹ In other words, the market now accepts ratings at face value and stocks trade consistent with the plain meanings of the recommendations. According to the Kadan Study, these results suggest that buy and hold recommendations are now “more informative to investors.”⁸² As for sell recommendations, the Kadan Study found more mixed results.⁸³ The Madureira Study also found that firms now generally seem to “mean what they say” when issuing hold and sell recommendations,⁸⁴ concluding that “brokerage houses no longer are disguising pessimistic recommendations as neutral ratings.”⁸⁵ In contrast, before the SRO Rules and Global Settlement, a hold rating often was tantamount to a sell recommendation,⁸⁶ which would generate far greater negative price reaction in the market than the author has found since implementation of the regulations.

⁷⁸ Stone, *supra* note 70 (in the “bad old days,” research on the same company was “often barely distinguishable” among research firms).

⁷⁹ *Id.* See also McCafferty, *supra* note 72 (most experts expect analysts to “dig deeper into the companies they cover”).

⁸⁰ *Facts Without Fiction*, *supra* note 67, at 1 (noting that research is now “a competitive marketplace of versatile and diverse research providers”). See also *SIA Research Management Conference: Reflections on Two Years Since the Global Settlement*, SIA Research Reports, Vol. VI, No. 9 (Sept. 30, 2005) (“panelists agreed that there is a far greater variety of research products and services available today”).

⁸¹ Kadan Study at 20.

⁸² *Id.*

⁸³ *Id.*

⁸⁴ Madureira Study at 3, 25-26.

⁸⁵ *Id.* at 25, 26. The study did, however, find some negative market reactions to hold recommendations issued by non-settling firms.

⁸⁶ Madureira Study at 2.

However, one recent academic study has found that investors are less responsive to analyst recommendations. The Boni Study found that market participants on average respond less to recommendation changes made by the ten settlement firms after the Global Settlement (*i.e.*, stock prices increase less on upgrades and decrease less on downgrades than they did prior to the Global Settlement).⁸⁷ The author notes that it is possible that retail investors react to analyst recommendations as they did before the settlement but institutional investors respond less.⁸⁸

(b) *Recommendations may be more accurate and predictive of investment profitability*

Reports suggest that research has become more accurate following implementation of the SRO Rules and the Global Settlement, which served “as a wake-up call for many sell-side research professionals As a result, broker/dealers and investment banks are now paying much more attention to the accuracy of their research recommendations.”⁸⁹

And there is evidence that investors who follow recommendations may be seeing improved returns. For example, the Barber Study concluded that the disclosure requirements in the SRO Rules provide investors with helpful information to assess the value of a research analyst’s recommendation and to predict profitability by investing consistent with those recommendations. The authors found that prior to the implementation of the SRO Rules, upgrades from brokers with the highest percentage of pessimistic ratings outperformed by an average of 50 basis points those brokers that tended to have a more optimistic ratings distribution.⁹⁰ The obverse also held true: downgrades to hold or sell from the more optimistic brokers significantly outperformed investments in stocks downgraded by brokers with more pessimistic ratings distributions.⁹¹ The authors note that these differences have effectively evaporated after implementation of the SRO Rules, leading to their conclusion that the ratings distribution disclosure requirement has made research more transparent for investors.⁹²

According to Starmine, a firm that rates analyst performance, following analysts’ advice would have had a slightly negative impact on portfolios on average in 2002; however, in 2003, it would have added 2.2 percentage points to returns.⁹³ In 2004, analysts outperformed benchmarks by

⁸⁷ Boni Study at 19.

⁸⁸ *Id.* However, this seems inconsistent with the author’s observation that according to polls, most institutional investors said that they largely ignored analysts’ recommendation ratings prior to the Global Settlement. *Id.* at 3.

⁸⁹ Integrity Research Assoc. & Meghan Leerskov, *Gauging The Independent Edge*, Buyside, June 2004, at 61, 66. *See also* Stone, *supra* note 70 (quoting a senior analyst at First Call as saying that research over the prior two years “has become more objective, more original, and more accurate”).

⁹⁰ Barber Study at 6, 31.

⁹¹ *Id.*

⁹² *Id.* at 36.

⁹³ Stone, *supra* note 70. *See also* Daniel Gross, *The Best Stock Tips in Town - Buy When These Guys Say Buy, Not When Those Guys Say Buy*, Aug. 4, 2004, <http://slate.msn.com/id/2104760> (according to a Smith Barney study, investors who heeded consensus advice from mid-2001 through mid-2003 would have lost money, including a loss of more than 35% in the fourth quarter of 2001; however, there were two straight

1.3 percentage points.⁹⁴ In addition, by 2005, five of the top ten best-performing research shops were sell-side brokerages, as opposed to two years ago, when independent analysts occupied nine of the top ten spots.⁹⁵

On the other hand, the Boni Study found very little change in the performance of analyst recommendations. The Boni Study found that stocks that received the strongest recommendations of selling firm analysts outperformed the S&P 500 index both before and after the Global Settlement.⁹⁶ The study found the same to be true for stocks that received the analysts' worst ratings and in fact, more often than not, such stocks outperformed those stocks that received analysts' strongest recommendations both before and after the Global Settlement.⁹⁷ In discussing these findings, the author noted that both before and after the Global Settlement, recommended stocks that outperformed the S&P 500 index did so at least in part because they are riskier investments on average.⁹⁸

Some news reports also have suggested that the accuracy of research has not improved appreciably as a result of the SRO Rules. An analysis performed for *The Wall Street Journal* indicates that analysts are doing no better a job of picking stocks than they were before the research scandals.⁹⁹ The article reported that since 2000, "even though Wall Street supposedly has become more discriminating," stocks with large proportions of sell ratings are performing better than those with buy and hold ratings.¹⁰⁰ In 2003-2004, stocks with the most sell ratings rose 36% on average, while those with the most buys rose just over 25%.¹⁰¹

Research Ratings Have Been Simplified

The SRO Rules also have led to widespread adoption of simplified ratings systems. As the Madureira Study explained, the new ratings systems are simplified in terms of the number of ratings categories and the meaning among analysts is "very uniform."¹⁰² Eight of the ten Global Settlement firms adopted new ratings system in 2002, and many of the next largest brokerage

quarters of positive performance in the second half of 2003); Melissa Lee & John Metaxas, *Change Comes Slowly To Wall St. Research*, Apr. 26, 2004, <http://msnbc.msn.com/id/4816690/print/1/displaymode/1098>.

⁹⁴ Matt Krantz, *Analysts Deliver Better Advice*, Feb. 9, 2005, <http://www.investars.com/articles20050209.asp>; Jane J. Kim, *Stock Research Gets More Reliable*, Wall St. J., June 7, 2005, at D1.

⁹⁵ Worden, *supra* note 67. See also Kim, *supra* note 94 (some of the brokerage firms that were part of the Global Settlement have climbed higher in rankings of the best-performing research shops).

⁹⁶ Boni Study at 5.

⁹⁷ *Id.*

⁹⁸ *Id.* at 5-6.

⁹⁹ Browning, *supra* note 69.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² Madureira Study at 13. The author noted that the changes in ratings systems came about in response to the SRO Rules, which "express[ed] the regulators' concern about ratings systems that were loosely defined and perhaps not properly understood by the research's clients." *Id.* at 11.

houses began to adopt new systems around the same time.¹⁰³ Only one of the new ratings systems was adopted before the SRO Rules became effective in July 2002, and many came on line contemporaneous with the September 9, 2002 implementation date of the SRO Rules ratings distribution requirements.¹⁰⁴ Most large brokerage houses now use a three-tier ratings system, and every new ratings system adopted after 2001 is a three-tier system.¹⁰⁵

Some news articles indicate that research can still be confusing for investors, since not all brokerages have adopted new ratings systems, and there is no mandated or accepted uniform ratings system for those that have them.¹⁰⁶

Conflicts Of Interest Have Been Reduced But Not Eliminated

Numerous articles provide anecdotal evidence that the conflicts of interest arising from the close relationship of research and investment banking have been mitigated following implementation of the SRO Rules and Global Settlement. For example, one investment bank had to drop out of a large IPO in May 2005 after its top media research analyst told the firm's senior bankers that they were overpricing the shares.¹⁰⁷ In another example, analysts at two firms that launched a recent hot IPO began coverage on the stock with an "underperform" rating.¹⁰⁸

However, a December 2004 *Newsweek* article reports that despite the regulatory changes and Global Settlement, the "big financial firms are still rife with conflicts that put their own interests, and those of big banking clients, ahead of everyone else's."¹⁰⁹ The article cites as evidence of such conflicts the fact that analysts can still meet with executives around the time they are considering which investment bankers to hire and investment banking fees continue to flow into a pool of money used to pay analysts.¹¹⁰ Another article reports that "at some firms, banking and research were still a little too cozy" and companies looking for underwriters "still want to be sure they'll get positive research coverage once their stock is issued."¹¹¹ According to the article,

¹⁰³ *Id.* at 11.

¹⁰⁴ *Id.* at 13; *see also* Barber Study at 14.

¹⁰⁵ Madureira at 13. The result of the change in ratings system was that many outstanding recommendations were downgraded. *Id.* at 14. More than 90% of the stocks newly rated pessimistic were rated at least neutral under the old system, and more than 40% of the stocks newly rated neutral were rated at least buy/strong buy under the old system. *Id.*

¹⁰⁶ Susanne Craig & Ann Davis, *Analyze This: Research Is Fuzzier Than Ever*, Wall St. J., Apr. 26, 2004 at C1 (ratings are not comparable across firms because the SRO rules do not require a uniform methodology).

¹⁰⁷ Andrew Ross Sorkin & Jeff Leeds, *Has Wall Street Changed Its Tune?*, June 19, 2005, <http://boycott-riaa.com/article/17252> (stating that "[t]hroughout Wall Street, research analysts at major investment banks are increasingly showing a new sense of independence"). *See also* Joseph Nocera, *Wall Street on the Run*, June 14, 2004, http://www.pbs.org/wsw/news/fortunearticle_20040614_02.html (reporting that there have been "plenty of stories about analysts, freed from pressure from bankers, who vetoed important underwriting deals").

¹⁰⁸ Matt Krantz, *IPO underwriters' ratings get tougher, Baidu.com hit*, USA Today, Sept. 14, 2005.

¹⁰⁹ Charles Gasparino, *The Street's Dark Side*, Newsweek (U.S. Edition), Dec. 20, 2004, at 40.

¹¹⁰ *Id.*

¹¹¹ Nocera, *supra* note 107.

research continues to be used to attract banking business.¹¹² Another article suggests that “change has come more slowly to smaller securities firms.”¹¹³ The article tells the story of one analyst who, after adoption of the SRO Rules, received a voice mail from a banker scolding him for a negative report and threatening that the analyst’s compensation is still determined by investment banking revenue.¹¹⁴

A Harvard Business School professor who has studied research analysts said in an interview that even where research is separated from investment banking, conflicts of interest persist.¹¹⁵ These conflicts arise because (1) sell-side analysts have incentives to hype stocks to generate trading business through large institutional investors who may be clients of the brokerage firm, and (2) once a sell-side analyst has prompted an institutional client to take a large position in a stock recommended by the analyst, the analyst faces a disincentive to downgrade the stock and thereby impact the value of the client’s position.¹¹⁶

In addition, while the SRO Rules may have lessened the internal pressure on analysts, there have been a number of reports indicating that analysts are coming under external pressure – retaliation by issuers against analysts who have downgraded their stock.¹¹⁷ Some say that the regulatory reforms splitting investment banking from stock research could shift the source of pressures from investment banking to the issuers.¹¹⁸

Research Coverage Has Diminished

Several press accounts report that the number of companies covered by research analysts has decreased since the implementation of the Global Settlement and SRO Rules. A recent report says that since 2002, 691 companies have lost analyst coverage altogether and 99% of the

¹¹² *Id.* See also *Timing of Stock Issuance Raises Eyebrows After Upgrade*, Wall St. J., Sept. 14, 2005, at C1 (within two days after research analyst upgraded stock, employing firm won the right to lead a stock issue for the company).

¹¹³ Craig, *supra* note 73.

¹¹⁴ *Id.*

¹¹⁵ Ann Cullen, *The Bias of Wall Street Analysts*, Oct. 18, 2004, http://hbswk.hbs.edu/tools/print_item.jhtml?id=4430&t=entrepreneurship.

¹¹⁶ *Id.*

¹¹⁷ Gretchen Morgenson, *You'll Never Do Research in This Town Again*, N.Y. Times, July 31, 2005, at BU 1 (fear of retaliation from the companies they follow may explain analysts' unreasoned optimism); Adrienne Baker, *Leader: Spitzer's Next Challenge?* Apr. 2005, <http://ironthenet.com/feature.asp?current=1&articleID=4048> (in a survey of 732 analysts, 40% said they felt shut out by a firm after they downgraded its equity and another 6% said that companies had threatened to suspend banking relationships following a downgrade); Melissa Lee & John Metexas, *When Companies Behave Badly To Analysts*, Apr. 29, 2004, <http://msnbc.msn.com/id/4816980/print/1/displaymode/1098/>; Richard J. Wayman, *Are Analysts 'Too' Independent? Apparently The French Think So*, Jan. 30, 2004, <http://www.researchstock.com/cgi-bin/rview.cgi?c=bulls&rsrc=RC-20040130-F>; Deborah Solomon & Robert Frank, *'You Don't Like Our Stock? You Are Off The List'*, Wall St. J., June 19, 2003, at C1; *Corporate Retaliation on Analysts*, Apr. 8, 2003, <http://www.ironthenet.com/static/disclosure/USCanada/CorporateRetaliation0403.htm>.

¹¹⁸ Solomon & Frank, *supra* note 117.

companies that have lost coverage are smaller companies with a stock market value of less than \$1 billion.¹¹⁹ According to Reuters Research, as of January 2004, 666 companies in its database of 4,075 had been “orphaned” by sell-side analysts, while in 2002, only 85 companies were left without analyst coverage.¹²⁰ Of the companies that have not been orphaned, 380 are down to a pair of analysts, while 473 companies have just one.¹²¹ Similarly, a recent academic study has found that the number of stocks covered by the ten Global Settlement firms has dropped an average of 14% relative to 2000 and 20% relative to 2001.¹²² However, three of the ten firms show little change or even an increase in the number of companies they covered pre- and post-settlement.¹²³

On the other hand, at least one article indicates that there has been no loss in coverage. In June 2004, First Call, which monitors and distributes analysts’ reports, said that as much research coverage is being generated and that 4,158 companies were being covered, down from 4,257 in June 2002.¹²⁴

To the extent that coverage has diminished, some of the cutback has been attributed to the new regulatory environment, while others say that it is not clear that the new regulations are wholly to blame,¹²⁵ and some blame “long-term economic forces.”¹²⁶

¹¹⁹ Susanne Craig, *Firm To Research Stock ‘Orphans’*, Wall St. J., June 7, 2005, at C3. See also SIA Research Reports, Vol. VI, No. 9, at 12 (“Panelists also agreed that there appears to be a decline in the coverage of smaller stocks (those with market capitalization lower than \$1 billion), which has a negative impact on capital formation.”); Robert Scott Martin, *Issuer-Paid Research Comes of Age*, Buyside (2005), <http://www.buyside.com/archives/2005/0501/0501fidea.asp> (64% of all publicly traded companies do not have sell-side coverage and if over-the-counter stocks are included, the number jumps to 80%); Ritu Kalra, *Paid-For Research Scores With Investors*, Reuters, July 17, 2004, http://www.boston.com/business/articles/2004/07/17/paid_for_research_scores_with_investors/ (for companies whose market capitalization is less than \$500 million, overall coverage is down by more than 35% since 2001 and nearly 60% of all publicly traded companies in the U.S. get no coverage at all); Lee & Metaxas, *supra* note 93 (Morgan Stanley cut stocks covered in North America by 26% and Merrill by 30%); Landon Thomas Jr., *Changed Smith Barney Is Thin on Analysts*, N.Y. Times, June 13, 2003, at C1 (Smith Barney discontinued coverage – at least temporarily – of close to 250 companies); McCafferty, *supra* note 72 (in 1998, 6,100 companies drew coverage from at least one analyst, but by May 2003, that number was down 30%, to 4,300).

¹²⁰ Marie Leone, *The Flight of The Sell-Side Analyst*, July 8, 2004, <http://www.cfo.com/printable/article.cfm/3015019?f=options>.

¹²¹ *Id.*

¹²² Boni Study at 4.

¹²³ *Id.* at 12.

¹²⁴ Stone, *supra* note 70 (noting that this decline may reflect the absence of IPOs and merger activity rather than research changes).

¹²⁵ Rachel McTague, *Goldschmid Concerned About Reduction In Broker-Dealers’ Budgets For Research*, BNA, Inc., Sept. 21, 2004.

¹²⁶ Martin, *supra* note 119.

Research Industry Has Changed

There have been many reports that the “old research model is dead,”¹²⁷ although little consensus has emerged as to the new models. Summarized below are some additional reported changes in the research industry, not discussed elsewhere in this section, since the implementation of the SRO Rules and Global Settlement.

- Institutional investors are diverting equity commission dollars away from Wall Street’s traditional research to securing access to analysts and company management.¹²⁸
- There has been a decrease in sell-side research staff and budgets in light of the separation of research from investment banking revenue.¹²⁹
- Sell-side analysts are migrating to the buy-side/money management firms.¹³⁰

¹²⁷ Nocera, *supra* note 107. See also Kyle L. Brandon, *Update on Research Analysts Related Issues*, SIA Research Reports, Vol. VI, No. 5, at 8 (May 27, 2005) (to date, “sell-side firms have not come up with an answer to the question ‘what is the new business model after the global settlement?’”).

¹²⁸ James Langton, *Study Shows Institutions Moving Away From Wall St. Research*, July 13, 2005, <http://www.investmentexecutive.com/client/en/News/ImprimerDetail.asp?Id=29645&IdSe>.

¹²⁹ SIA Research Reports, Vol. VI, No. 9, at 11 (one panelist estimated that research lost half of its funding with the loss of investment banking revenues at the same time that commission revenue fell by 30%); Mara Der Hovanesian & Amy Borrus, *Can The Street Make Research Pay? In The Eliot Spitzer Era, It's Looking More and More Like An Expensive Luxury*, Jan. 31, 2005, <http://www.capco.com/print.aspx?page=%2fpress.aspx%3fid%3d536> (research budgets at the seven biggest U.S. securities firms have fallen by more than 40% since 2000); McTague, *supra* note 125 (research budgets are down by as much as one-third at some broker-dealer firms); Leone, *supra* note 120 (the number of sell-side analysts has decreased by 15-20% over the last few years); Adam Piore, *Can Investors Get An Honest Stock Tip On (Or Off) Wall Street?*, Newsweek Int'l, Mar. 2004, <http://www.msnbc.msn.com/id/4468645> (HSBC announced that it would stop picking stocks altogether, declaring the old research model “broken”); Ann Davis, *Increasingly, Stock Research Serves The Pros, Not 'Little Guy'*, Wall St. J., Mar. 5, 2004, at A1; Daniel Dunaief, *Analysts Abandon Wall St.*, N.Y. Daily News, Feb. 24, 2003, <http://www.nydailynews.com/business/v-pfriendly/story/61941p-57842c.html> (analysts are leaving Wall Street and research has become more bureaucratic in light of new regulations).

¹³⁰ Greg Crawford, *Money Managers Beefing Up Their Research Staffs, Search For New Ideas Spurs Firms Into Action*, Investment News, June 20, 2005, at 15 (money managers are beefing up their research staffs and between early 2003 and early 2005, the average research staff at U.S. buy-side institutions increased from 9.3 to 10.5 people); Bill Slocum, *Is There A Future For Wall Street Research?*, June 27, 2003, <http://www.researchstock.com/cgi-bin/rview.cgi?c=outside&rsrc=RA-20030627-F> (in-house equity analysts are being asked to cover more industries and companies than ever before); *Sell Side Gets A Boost*, June 23, 2003, <http://www.ironthenet.com/newsarticle.asp?current=1&articleID=2761> (reporting on the increased pressure on buy-side analysts to cover more industries); Paula Lace, *Sell-Side Analysts Make A Break For The Buy Side*, TheStreet.com, Mar. 5, 2003, <http://www.thestreet.com/markets/paulalace/10072239.html> (the shift to the buy-side could result in making the research industry “even more clubby”).

- Many companies are outsourcing research staff to foreign countries, such as India.¹³¹
- Research is not going to the small investor, whom the regulations were designed to protect, but to institutional investors.¹³²
- Issuer-paid research is on the rise as a result of the loss of coverage.¹³³

V. REVIEW OF RULE PROVISIONS

A. Analytical Framework for Review

The SRO staffs have conducted a section-by-section review of the SRO Rules to determine whether any additions, deletions or amendments are warranted. In evaluating each provision, the SRO staffs have been guided by several analytical touchstones. First, the SRO staffs looked to the principles that underpinned the original rule development to see if a provision is accomplishing its intended purpose. Second, the SRO staffs reviewed findings from examinations, sweeps and enforcement actions. Third, the SRO staffs considered interpretive requests and member questions. Fourth, the SRO staffs compared the rules to the provisions of the Global Settlement. Fifth, the SRO staffs considered potential gaps or overbreadth in the existing rules. Finally, the SRO staffs considered suggestions from industry groups and members.

B. Section-by-Section Review

Set out below is a discussion of those provisions for which the SRO staffs recommend amendments or further interpretation to the rules. The SRO staffs believe that the other provisions of the SRO Rules are operating effectively and efficiently in achieving their purpose,

¹³¹ Der Hovanesian & Borrus, *supra* note 129; Davis, *supra* note 129; Khozem Merchant & David Wells, *Banks Move Analysts' Work To India*, Financial Times (London), Aug. 20, 2003, at 1.

¹³² Davis, *supra* note 129 ("the most pioneering, market-moving research is going exclusively to big mutual funds and the private investment pools known as hedge funds").

¹³³ SIA Research Reports, Vol. VI, No. 9, at 12 (summarizing panel discussion on the issue of "made-to-order" research tailored to meet client requests); Martin, *supra* note 119 (paid-for researchers "have taken strict measures to keep their work as independent as humanly possible"); Kalra, *supra* note 119 (portfolio managers are overcoming their skepticism of issuer-paid research, citing impressive performance and access to information on companies large Wall Street investment banks do not cover); Melissa Lee & John Metaxas, *Beware of Wall St. 'Research For Hire'*, Apr. 28, 2004, <http://www.msnbc.msn.com/id/4816907/print/1/displaymode/1098/> (current regulations are not strong enough to protect investors vis-à-vis research for hire and if an analyst is not associated with a broker-dealer, perhaps "caveat emptor" should apply); Ann Davis, *Wall Street, Companies It Covers, Agree on Honesty Policy*, Wall St. J., Mar. 11, 2004, at C1 (discussing best practices guidelines that were a joint effort between the Association for Investment Management and Research and the National Investor Relations Institute); Lynn Cowan, *Research-For-Hire Shops Growing, Seeking Legitimacy*, Wall St. J. Online, July 7, 2003, http://online.wsj.com/article_print/0,,BT_CO_20030707_001632,00.html; Thomas S. Mulligan, *Ignored by Wall St., Firms Turn To Research-For-Hire Outfits; As The Fee-Based Industry Tries To Fill The Gap Left By The Withdrawal of Analyst Coverage, Some Experts Have Reservations*, Los Angeles Times, June 3, 2003; McCafferty, *supra* note 72.

and therefore no changes are recommend to those provisions at this time. In making the recommendations, the SRO staffs are mindful that consideration must be given to the mandates of Sarbanes-Oxley and that, in certain instances, implementing the recommendation may require an exemption from the SEC. The SRO staffs did not attempt to address every interpretive issue that may be outstanding and will continue to entertain interpretive requests on a case-by-case basis and to publish, as warranted, additional joint memoranda setting forth key interpretations.

1. Definitions

Current Rules

The SRO Rules currently include the following defined terms:

“Public appearance” means any participation in a seminar, forum (including an interactive electronic forum), radio, television or print media interview, or other public speaking activity, or the writing of a print media article, in which a research analyst makes a recommendation or offers an opinion concerning an equity security.

“Research report” means a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.

“Research analyst” means the associated person who is primarily responsible for, and any associated person who reports directly or indirectly to such a research analyst in connection with, preparation of the substance of a research report, whether or not any such person has the job title of “research analyst.”

Recommended Changes

The SRO staffs recommend several changes to the definitions in NASD Rule 2711 and NYSE Rule 472 to make certain interpretations express in the rule language and to circumscribe the scope of communications subject to the SRO Rules.

“Public Appearance”

The SRO staffs recommend amending the definition of “public appearance” to codify an interpretation consistent with SEC Regulation AC that the term applies only to appearances involving 15 or more separate investors. The SRO staffs further recommend that the definition also codify an exception to that interpretation contained in NASD *Notice to Members* 04-18 and NYSE Information Memo 04-10: that it excludes password-protected Webcasts, conference calls and similar events with 15 or more existing customers, provided that the participants previously received the most current research report or other documentation that includes the disclosures required by the SRO Rules and that the research analyst making the appearance corrects or updates any disclosures that are inaccurate, misleading or no longer applicable.

“Research Report”

The SRO staffs recommend several amendments to the definition of “research report.”

First, the SRO staffs suggest codifying the various exceptions to the definition set forth in the two joint interpretive memoranda.¹³⁴ These exceptions essentially parallel those in SEC Regulation AC and the Global Settlement and are set forth below:

- reports discussing broad-based indices, such as the Russell 2000 or S&P 500 index;
- reports commenting on economic, political or market (including trading) conditions;
- technical or quantitative analysis concerning the demand and supply for a sector, index or industry based solely on trading volume and price;
- reports that recommend increasing or decreasing holdings in particular industries or sectors or types of securities;
- statistical summaries of multiple companies' financial data and broad-based summaries or listings of recommendations or ratings contained in previously-issued research reports, provided that such summaries or listings do not include any narrative discussion or analysis of individual companies; and
- notices of ratings or price target changes that do not contain any narrative discussion or analysis of the subject company, provided that the member simultaneously directs the readers of the notice as to where to obtain the most recent research report on the subject company that includes the disclosures required by the rule, and the notice does not refer to a research report that contains materially misleading disclosure, such as where the disclosures are outdated or no longer applicable.

In addition, the SRO staffs recommend codifying two other exceptions to the definition of "research report" contained in the March 2004 Joint Memorandum and SEC Regulation AC. These exceptions exclude certain communications even if they include information reasonably sufficient upon which to base an investment decision or a recommendation or rating of individual securities or companies:

- any communication delivered to fewer than 15 persons; and
- periodic reports, solicitations or other communications prepared for current or prospective investment company shareholders (or similar beneficial owners of trusts and limited partnerships) or discretionary investment account clients that discuss individual securities, provided that such communications discuss past performance or the basis for previously made discretionary investment decisions.

Second, the SRO staffs recommend explicitly excluding from the definition sales material regarding registered investment companies and direct participation programs ("DPPs"). Since investment companies and DPPs are "equity securities" as defined in Section 3(a)(11) of the Securities Exchange Act of 1934, related sales material that contains an analysis of those

¹³⁴ See NASD *Notices to Members* 02-39 (July 2002) and 04-18 (Mar. 2004) and NYSE Information Memos 02-26 (June 26, 2002) and 04-10 (Mar. 9, 2004).

securities and information sufficient upon which to base an investment decision technically is covered by the definition. Yet sales material regarding investment companies is already subject to a separate regulatory regime, including NASD Rule 2210, NYSE Rule 472 and SEC Rule 482, and all advertisements and sales literature regarding investment companies and DPPs must be filed with the NASD Advertising Regulation Department. Moreover, the SRO staffs do not believe that the conflicts underpinning the SRO Rules are manifest to the same extent with respect to research on investment companies and DPPs.

Third, the SRO staffs recommend codifying a longstanding interpretation that communications that constitute prospectuses under the Securities Act of 1933, including free-writing prospectuses as defined under the SEC's recent Securities Offering Reform rules,¹³⁵ are not considered "research reports," even if they meet the definitional elements. Such prospectuses facilitate differing purposes from research reports and are subject to a separate comprehensive regulatory scheme.

"Research Analyst"

Several industry members have urged the SROs to amend the definition of "research analyst" to exclude any member personnel who are not principally engaged in the preparation or publication of research reports – a limitation contained in the Global Settlement. The SRO Rules, in accordance with the mandates of Sarbanes-Oxley, are constructed such that the author of a communication that meets the definition of a "research report" is a "research analyst," irrespective of his or her title or primary job. This prevents firms from circumventing the rules by redirecting through other channels, such as registered representatives or traders, potentially biased research that is not subject to the SRO objectivity safeguards.

The SRO staffs believe it is important to maintain such communications as research reports subject to the rules and those principally responsible for their preparation as research analysts. However, the SRO staffs recommend consideration of a limited exemption from the registration requirements for non-research personnel that produce research reports. The SRO staffs believe that the registration and qualification requirements were intended for those individuals whose principal job function is to produce research, while the balance of the SRO Rules are intended to foster objective analysis of equity securities and transparency of certain conflicts and to provide beneficial information to investors.

2. Restrictions on Investment Banking Department Relationship with Research Department

Current Rules

The SRO Rules permit investment banking and other non-research employees, other than legal and compliance personnel, to review a research report before publication only to verify the factual accuracy of information in the report or identify a potential conflict of interest. The rules further require that an authorized legal or compliance official act as intermediary for all such permissible communications.

¹³⁵ Securities Offering Reform, Securities Act Release No. 8591 (July 19, 2005), 70 FR 44722 (Aug. 3, 2005).

Recommended Changes

The SRO staffs recommend eliminating the provision that permits pre-publication review of research by investment banking and other non-research personnel, other than by legal and compliance. The SRO staffs believe that review of facts in a report by investment banking personnel is unnecessary in light of the numerous other sources available to verify factual information and only raises concerns about the objectivity of the report. Such review may invite pressure on a research analyst from investment banking personnel that could be difficult to monitor.¹³⁶

The SRO staffs note that such factual review is not permitted under the terms of the Global Settlement. Moreover, legal and compliance can adequately perform a conflict review without sharing draft research reports with investment banking personnel.

3. Restrictions on Solicitation of Investment Banking Business

Current Rules

The SRO Rules prohibit research analysts from participating in efforts to solicit investment banking business, including pitch meetings with prospective clients.

Recommended Changes

This provision, which mirrors language in the Global Settlement, strikes at a core conflict that can compromise research analysts' objectivity when they and their research are utilized to win business rather than provide dispassioned analysis. While the SRO staffs believe this provision is operating effectively, some members have asked for additional guidance regarding references to research analysts and research in pitch books and related meetings. The SRO staffs note that the SEC has provided interpretive guidance to the parallel provisions of the Global Settlement and concluded that it would be inconsistent with the purpose of the solicitation ban to include in a pitch book or related presentation materials any information regarding an analyst employed by a firm or an analyst's views. The SRO staffs generally agree with that guidance and intend to address this area in more detail in a future interpretive memorandum.

4. Restrictions on Sales and Marketing Activities

Current Rules

The SRO Rules prohibit research analysts from participating in road shows related to investment banking services transactions and from engaging in any communications regarding investment banking services transactions with current or prospective customers in the presence of investment banking personnel or company management. Investment banking personnel also are prohibited from directing a research analyst to engage in sales or marketing efforts or to engage in any communication with a current or prospective customer related to investment banking transactions.

¹³⁶ See, e.g., Craig, *supra* note 73.

Recommended Changes

This provision, which is substantially the same as a comparable provision in the Global Settlement, seeks to address potential conflicts of interest during the period that firms market securities offerings for issuers. While the SRO staffs believe this provision is operating effectively, some members have asked for additional guidance on whether research analysts can listen to or view an investment banking or company-sponsored road show or other presentation to investors or the analysts' sales force.

The SRO staffs note that the SEC has provided interpretive guidance on the parallel provision of the Global Settlement and concluded that it would not be inconsistent with this provision to permit research analysts to listen to ("listen-only" mode, not identified as being present), or view a live Webcast of a road show or other widely attended presentation to investors or the sales force, so long as access is from a remote location (*i.e.*, not at the same address as investment banking, investors or the sales force). The SEC has further stated that if the road show or other widely attended presentation to investors or the sales force is conducted at the firm's offices, research personnel may listen-in from the same address as investment banking, investors or the sales force, but may not be in the same room as investment banking, investors or the sales force. The SRO staffs generally agree with that guidance and intend to address this area in more detail in a future interpretive memorandum.

5. Restrictions on Publishing Research Reports and Public Appearances

Current Rules

The SRO Rules set forth, in accordance with the mandates of Sarbanes-Oxley, "quiet periods" during which a member is prohibited from publishing or otherwise distributing a research report and a research analyst is prohibited from making a public appearance. These quiet periods apply in two circumstances: (1) after a public offering of securities and (2) before and after the expiration, waiver or termination of a lock-up agreement entered into by a member with a subject company that restricts the sale of securities by that company or its shareholders.

With respect to the former, the SRO Rules establish different quiet periods depending on whether the offering is an IPO or secondary offering and whether the member acted as manager or co-manager. A member that acted as a manager or co-manager of an IPO may not publish or otherwise distribute research for 40 calendar days following the date of the offering; all other members that participated as an underwriter or dealer in the offering are subject to a 25-day quiet period. A ten-day quiet period applies only to the manager and co-manager of a secondary offering.

The rules contain an exception that permits publication and distribution of research or a public appearance concerning the effects of "significant news or a significant event on the subject company" during the quiet period. The SRO staffs have interpreted this exception to apply only to news or events that have a material impact on, or cause a material change to, a company's operation, earnings or financial condition. Another exception to the secondary offering quiet period permits publication or distribution of research pursuant to SEC Rule 139 regarding a subject company with "actively-traded securities" as defined in SEC Regulation M.

Recommended Changes

The SRO staffs recommend several changes to the quiet periods surrounding public offerings and lock-up expirations. In some cases, the SRO staffs offer alternative recommendations to address these issues.

(a) Quiet periods following public offerings of securities

The SRO staffs recommend unifying the IPO quiet periods for all underwriters and dealers participating in the offering and tying them to the SEC's rules regarding publication and distribution of research. As such, the SRO staffs recommend amending the rules to apply a 25-day quiet period to managers, co-managers, underwriters and dealers that participate in an IPO, unless publication or distribution of the report or the public appearance is permitted by SEC rule or interpretation.

The lengthier quiet period for managers and co-managers was intended to allow other voices to publicly analyze and value a subject company before managers and co-managers – those members vested with the greatest interest in seeing the stock price of the subject company go up – weighed in with their reports and public appearances. At the time this provision was enacted, it had been commonplace for managers and co-managers to initiate coverage with a positive rating on a company they just brought public, irrespective of whether the stock price had already risen well beyond the public offering price.

However, the SRO staffs recently have observed more circumstances where managers and co-managers have been neutral or even negative with their initial post-quiet period report based on price appreciation or other factors. Accordingly, the SRO staffs believe that the objectivity safeguards of the SRO Rules and the certification requirement of SEC Regulation AC have obviated the need for a longer quiet period for managers and co-managers than other underwriters and dealers participating in an IPO. The SRO staffs also believe the change would promote more information flow to investors and consistency with SEC regulations.

For some of the same reasons, the SRO staffs also recommend eliminating the quiet periods following a secondary offering. Coupled with the protections of SEC Regulation AC and other SRO Rule provisions, the SRO staffs believe that repeal of this provision would advance the SEC's purpose in its Securities Offering Reform rules to expand the ability of issuers to release more information regarding their prospects and financial condition, without sacrificing the reliability of the research. Along those lines, the existing SRO Rules already provide exceptions for research reports on issuers with "actively-traded securities" as defined in SEC Regulation M.

(b) Quiet periods around releases of lock-up agreements

The NASD staff recommends eliminating the quiet periods around the expiration, waiver or termination of a lock-up agreement, provided members include an additional statement as part of their SEC Regulation AC certification – or, alternatively, a separate certification – for research issued during such periods. The quiet periods surrounding lock-up releases are intended to prevent abusive "booster shot" reports by members to raise the stock price of a company just before previously locked-up shares become freely saleable into the market by a company or its major shareholders. While the SRO staffs continue to share the concern expressed by the former

Acting Chair of the SEC¹³⁷ that these periods pose heightened concerns about biased research, the changes to internal structure of investment banks and the other safeguards imposed by the rules appear to the NASD staff to have addressed these concerns, and have obviated the need for a quiet period that inhibits the flow of information to the marketplace. Moreover, the NASD staff believes that practical limitations inhibit effective administration of the provision. Most notably, the SRO Rules do not require lock-up agreements, and the SROs often have no jurisdiction over parties to them, including the subject company and its non-member shareholders. The SROs therefore cannot always be the arbiter of whether certain facts constitute, for example, a waiver or termination of a lock-up – a significant impediment to the SROs' ability to enforce this provision.

The NASD staff notes that under no circumstances are overly optimistic reports acceptable, whether or not they occur around the expiration of a lock-up. To that end, the SRO Rules require a reasonable basis for any recommendation or price target and the valuation method used to determine a price target, while SEC Regulation AC requires certification that any such recommendation or price target be genuinely held. Accordingly, the NASD staff believes an effective alternative to the quiet periods would be to require that members include under Regulation AC, or separately, an additional certification to having a bona fide reason for issuing research within 15 days before and after a lock-up expiration.

On the other hand, the NYSE staff believes that the quiet period surrounding the expiration, termination or waiver of a lock-up agreement should be maintained but perhaps reduced from the current 15-day period to a five-day period. The NYSE staff believes that the regulatory concerns that precipitated the promulgation of the prohibitions are still present. That is, the NYSE staff is concerned that, absent a quiet period around the release of lock-up agreements, member firms may issue "booster shot" reports that are intended to raise the stock price of a company just before locked-up shares become freely saleable into the market by a company or its major shareholders. The NYSE staff believes that, while the certification requirement of SEC Regulation AC may have obviated the need for a longer quiet period for managers and co-managers than other underwriters and dealers participating in an IPO, it does not support the elimination of quiet periods around the release of lock-up agreements.

With respect to operational issues, the NYSE staff observes that the comments and concerns initially made at the time of the rule proposal have not materialized. In this regard, there have not been instances when the NYSE staff has found co-managers to have inadvertently published research in violation of the quiet periods surrounding the waiver of lock-up agreements granted by lead managers.¹³⁸

¹³⁷ Unger Testimony, *supra* note 5, at 229, 235.

¹³⁸ The NYSE/NASD IPO Advisory Committee made the following recommendations: (1) require prospectuses to include a clear description of lock-up agreements and whether the underwriter expects to grant exceptions relating to hedging or other transactions; and (2) require improved disclosure regarding exemptions by an underwriter to an IPO lock-up agreement, by mandating that underwriters notify issuers prior to granting any exemption to a lock-up, and require issuers to file a current report on Form 8-K at least one business day prior to the time the insider commences the transaction, and also that prior to the transaction, the lead underwriter announces the exemption by broad communications to the investment community through a major news service. See also Securities Exchange Act Release No. 50896 (Dec. 20,

Moreover, the NYSE staff notes that while the NYSE may not have jurisdiction over some of the participants to such agreements (e.g., the company and its shareholders), it does retain jurisdiction over its member organizations that can issue research and as such can limit the potential for any untoward conduct by maintaining this prohibition.

Lastly, the NYSE staff notes the recent strength of the IPO market¹³⁹ and that such offerings generally contain lock-up agreements. Accordingly, it believes that at this juncture it is appropriate to maintain a form of prohibition absent some compelling empirical data/evidence to the contrary.

(c) *Exceptions to quiet periods*

As noted above, the rules contain an exception that permits publication and distribution of research or a public appearance concerning the effects of “significant news or a significant event on the subject company” during the quiet period. The SRO staffs have interpreted this exception to apply only to news or events that have a material impact on, or cause a material change to, a company’s operations, earnings or financial condition and that generally would trigger the filing requirements of SEC Form 8-K. The SROs have not interpreted the exception to include earnings announcements absent some other significant news or significant event because it was felt that they generally are not a causal event or news items that materially affects a company’s operations, earnings or financial condition.

The NYSE staff believes that exceptions to quiet periods should be consistent with SEC requirements for the filing of Forms 8-K. In this regard, Item 2.02 (Results of Operations and Financial Conditions) of Form 8-K requires, in part, a filing of such form if a registrant makes any public announcement or release (including any update of an earlier announcement or release) disclosing material non-public information regarding its results of operations or financial condition. Accordingly, the NYSE staff recommends including an announcement of earnings as an exception to the quiet periods as it will be consistent with SEC requirements and maintain a flow of potentially sensitive information to the market and investors in a timely manner.¹⁴⁰ The NYSE staff also believes that an announcement of a change to earnings will, in all likelihood, be accompanied by an announcement of some type of causal events. Further, earnings announcements and guidance are necessary pipelines of information for research analysts to support the basis of their investment recommendations.

2004), 69 FR 77804 (Dec. 28, 2004) (notice of filing of proposed NYSE Rule 470 and NASD Rule 2712 which would codify, in part, the above recommendations) (SR-NYSE-2004-12 and SR-NASD-2003-140).

¹³⁹ In 2005, there have been 61 IPOs so far that have listed on the NYSE. In 2004, there were 69 NYSE-listed IPOs. Further, in a recent *Wall Street Journal* article, it was noted that “there are 115 initial public offerings of stock valued at \$20.9 billion waiting to price in the U.S. in 2006, according to data from deal tracker Dealogic LLC.” Lynn Cowan, *IPO Market Looks Strong in 2006*, Wall St. J., Dec. 19, 2005, at C4.

¹⁴⁰ The SEC recognized the importance of timely dissemination of information to the marketplace in its recent amendments to Form 8-K in which it shortened the filing deadline to four business days after the occurrence of an event triggering the disclosure requirements of the form. See Securities Act Release No. 8400 and Securities Exchange Act Release No. 49424 (Mar. 16, 2004), 69 FR 15594 (Mar. 25, 2004).

The NASD staff does not believe it is necessary to revise the quiet period exceptions to include any event that triggers the filing of a Form 8-K. The NASD staff continues to believe that earnings announcements are not causal occurrences that, in and of themselves, connote significant news or significant events that materially impact a subject company's financial condition or operations. Moreover, in the NASD staff's experience, abolition of the quiet periods around releases of lock-up agreements would largely obviate the need to expand the "significant news" exception. These issues have arisen mainly because an earnings announcement has occurred or will occur within 15 days of the expiration, waiver or termination of a lock-up agreement. As noted above, the NASD staff further believes that abolition of the quiet periods around releases of lock-up agreements would increase information flow to the marketplace.

6. Restrictions on Personal Trading by Research Analysts

Current Rules

NASD Rule 2711(g) and NYSE Rule 472(e) generally restrict the trading of securities by "research analyst accounts."¹⁴¹ Specifically, NASD Rule 2711(g) and NYSE Rule 472(e) prohibit any research analyst account from:

- purchasing or receiving any securities before the issuer's initial public offering if the issuer is principally engaged in the same types of business as companies that the research analyst follows;
- purchasing or selling any security issued by a company that the research analyst follows, or any option or derivative of such a security, for a period beginning 30 days before and ending five days after the publication of a research report concerning the company or a change in a rating or price target of the company's securities; and
- purchasing or selling any security or option or derivative of such a security in a manner inconsistent with the analyst's most recent recommendation.

The rules include exceptions to these trading restrictions for certain trades that:

- are due to unanticipated significant changes in an analyst's personal financial circumstances;
- occur within the 30-day/five-day trading blackout around the publication of a report if the report is issued due to a significant news event;

¹⁴¹ NASD Rule 2711(a)(6) defines the term "research analyst account" to include any account in which a research analyst or member of the analyst's household has a financial interest, or over which the analyst has discretion or control, other than an investment company registered under the Investment Company Act of 1940. The term does not include a "blind trust" account that is controlled by a person other than the research analyst or household member and neither the analyst nor any household member knows of the account's investments or investment transactions. Although NYSE Rule 472 does not employ the term "research analyst account," the trading restrictions of NYSE Rule 472(e) and NASD Rule 2711(g) are coterminous. See NYSE Rule 472.40.

- occur within 30 days after an analyst initiates coverage of a company;
- involve shares of diversified registered investment companies; and
- involve interests in an investment fund over which neither the analyst nor a household member has any investment discretion or control, the research analyst accounts collectively own no more than 1% of the fund's assets, and the fund invests no more than 20% of its assets in securities of issuers principally engaged in the same types of business as companies that the analyst follows.

NASD Rule 2711(g) and NYSE Rule 472(e) also require legal or compliance personnel to pre-approve all trades of persons who oversee research analysts to the extent such trades involve equity securities of subject companies covered by the analysts they oversee.

Recommended Changes

Members have suggested the SROs make two principal changes to the personal trading restrictions. First, members have urged the SROs to expand the exceptions to the personal trading restrictions to include any investments in funds not controlled by the research analyst or member of his or her household, regardless of whether the fund is registered as an investment company and regardless of its holdings. Second, some members that wish to go beyond the SRO Rules and ban ownership of securities covered by their analysts have asked the SROs to provide a means for those analysts to divest their holdings without violating the blackout period and trading against recommendation prohibitions.

The SRO staffs generally agree with these comments and therefore recommend the following changes to the exceptions to the SRO Rules' personal trading restrictions.

First, the SRO staffs recommend revising the exceptions to the personal trading restrictions for investment funds. The current rules do not apply the personal trading restrictions to investments in diversified registered investment companies and funds that meet certain percentage-of-assets tests. The SRO staffs recommend that the personal trading restrictions instead not apply to investments in any fund so long as neither the analyst nor a member of his or her household is aware of the fund's holdings or transactions other than through periodic shareholder reports and sales material based on such reports, and provided that the research analyst account owns no more than 1% of the assets of the fund.

This would simplify the ability of analysts to invest in mutual funds, variable insurance products and hedge funds that do not disclose their holdings other than through periodic reports or sales material based on such reports. The SRO staffs believe that absent discretion or control of an account or the contemporaneous knowledge of the account's transactions, a minimal investment by a research analyst will not tempt the analyst to compromise research objectivity to benefit the account.

Second, the SRO staffs recommend creating an exemption for firms that voluntarily choose to prohibit their analysts from owning shares of the companies they cover. The exemption would allow such a firm to adopt policies that permit research analysts to divest their holdings in an

orderly and controlled way with the oversight of the firm's legal and compliance personnel. The SRO staffs permitted firms to allow their analysts to divest their holdings in the same manner when the rule first became effective by delaying for a certain time period implementation of the personal trading restrictions for firms that wished to ban ownership. With the recommended change, the rule would allow firms that adopt ownership bans to implement the same divestiture procedures regardless of when they adopted such a policy.

7. Disclosure Requirements

Current Rules

NASD Rule 2711(h) and NYSE Rule 472(k) impose a number of disclosure requirements on member research reports and research analyst public appearances in which the analyst makes a recommendation or offers an opinion concerning an equity security. The rules require specific disclosures of conflicts of interest, including where the member firm, the research analyst or a member of the analyst's household has a financial interest in the subject company's securities or the member or its affiliates have received compensation from the subject company. The rules also require a number of non-conflicts related disclosures in research reports, including the meanings of ratings used in the member's rating system, the distribution of buy, hold, and sell ratings assigned by the member, and a price chart that plots the assignment or changes of the analyst's ratings and price targets for the subject company against the movement of the subject company's stock price over time.

Recommended Changes

The SRO staffs have found that these required disclosures promote transparency and provide important information to enable investors to assess the value of the research in making their investment decision. However, the SRO staffs are concerned that the sheer volume of the disclosures may obscure the overall message that the disclosures are attempting to convey: that the member or research analyst faces conflicts of interest with respect to the subject company. This problem is compounded by the fact that many members include additional disclosures required by other jurisdictions, as well as sometimes lengthy disclaimers for their own purposes. The SRO staffs believe that it would be more effective and useful to investors to know immediately whether the member firm or research analyst producing the research report is conflicted, while providing the reader the means to learn more about these conflicts if he or she chooses to do so.

To accomplish this result, the SRO staffs recommend amending the rules to require that, in lieu of publication in the research report itself, member firms disclose their conflicts of interest related to research reports by including a prominent warning on the cover of a research report that such conflicts of interest exist, together with information on how the reader may obtain more detail about these conflicts on the member's Web site. A member would then be required to include detailed conflicts information on its Web site. The SRO staffs believe that this disclosure system would be more effective to warn the reader of such conflicts than the current system of disclosing all conflicts in the back of the report.

The SEC has considered using this approach elsewhere to disclose the existence of conflicts of interest to investors. For example, the SRO staffs understand that in its mutual fund point-of-sale disclosure proposal,¹⁴² the SEC staff found that most investors only want to know about whether a conflict exists, rather than receiving quantitative or lengthy disclosure about the precise nature of those conflicts. For that reason, the SEC has proposed requiring a “Yes/No” disclosure of whether a dealer receives revenue sharing or pays differential compensation with respect to the sale of mutual funds. The SEC would require that more detailed disclosure about the nature of any conflicts be provided separately on a mutual fund’s Web site.

Similarly, in commenting on the SEC point-of-sale disclosure proposal, the NASD Mutual Fund Task Force recommended Internet delivery of point-of-sale documents and prospectuses, a recommendation that NASD supports.¹⁴³ The Task Force argued that Internet delivery would enable investors to obtain the level of disclosure that they wanted in electronic form.

The SRO staffs believe that the research analyst conflict of interest rules similarly lend themselves to a more targeted means of disclosure. The SRO staffs therefore suggest amending the SRO Rules to require conflicts of interest disclosure along the lines of the SEC’s point-of-sale proposal and NASD’s Internet delivery recommendations for mutual fund related disclosures. This disclosure requirement would ensure that investors obtain prominent disclosure that a research-related conflict exists, and would permit investors to find additional information about the conflict on the member’s Web site. It is possible that a similar approach could be used for disclosure of conflicts in public appearances, as long as the existence of such conflicts is clearly communicated.

The SRO staffs generally do not believe that vague, so-called “health warnings” that conflicts of interest “may or may not” exist are useful or effective. In this regard, the SRO Rules would still require disclosure based on actual conflicts of interest, rather than the possibility of such conflicts.

The SRO staffs do not recommend Web site disclosure for the non-conflicts related disclosures, such as the meanings of the member’s ratings and the price chart showing the subject company’s price movements against the analyst’s assignments of ratings and price targets. The SRO staffs believe that these disclosures provide useful information that should be readily available to investors, particularly since they would not be encompassed by the recommended conflict warning on the cover of the report.

Finally, the SRO staffs recommend the inclusion of non-substantive, technical changes to certain disclosure requirements in order either to codify past SRO interpretations of the rules or to clarify the rules’ intent. For example, a research report is required to disclose the meanings of ratings used in the member’s ratings system only if the report actually includes a rating of the subject company. Similarly, a price chart is not required for reports that do not include a rating or price target. In addition, the SRO staffs recommend including the disclosure requirements for third-party research reports, which are discussed in NASD *Notices to Members* 02-39 (July

¹⁴² Securities Act Release No. 8544 (Feb. 28, 2005), 70 FR 10521 (Mar. 4, 2005).

¹⁴³ Report of the Mutual Fund Task Force: Mutual Fund Distribution (Mar. 2005), http://www.nasd.com/web/groups/rules_regs/documents/rules_regs/nasdw_013690.pdf.

2002) and 04-18 (Mar. 2004) and NYSE Information Memos 02-26 (June 26, 2002) and 04-10 (Mar. 9, 2004), in the SRO Rules' text.

8. Prohibition on Retaliation Against Research Analysts

Current Rules

The SRO Rules currently prohibit any member and any employee of a member who is involved with the member's investment banking activities from directly or indirectly retaliating against a research analyst as a result of an unfavorable research report or public appearance that may adversely affect the member's current or prospective investment banking relationship with a subject company.

Recommended Changes

The SRO staffs believe that under no circumstances is retaliation appropriate against a research analyst who expresses his or her truly held beliefs about a subject company. As such, the SRO staffs recommend amending this provision to extend the retaliation prohibition to all employees, not just those involved in investment banking activities.

9. Prerequisites for the Research Analyst Qualification Examination

Current Rules

As detailed in Section II, the SRO Rules require an associated person who functions as a research analyst on behalf of a member to register as such and pass the Research Analyst Qualification Examination (Series 86/87) or qualify for an exemption. Prior to taking either the Series 86 or 87, a candidate also must have passed the General Securities Registered Representative Examination (Series 7), the Limited Registered Representative Examination (Series 17), or the Canada Module of Series 7 (Series 37 or 38).

The SRO staffs believe it is important for those functioning as research analysts to be familiar with general industry rules and practices, particularly those of registered representatives, who are a primary source for distributing research. The SRO staffs believe that the topics on the Series 7 and other eligible prerequisite examinations further develop a sensitivity in research analysts to the interests of public customers who are the end users of their work product. The SRO staffs note that a committee of research analysts who were consulted in the development of the Series 86/87 examination program unanimously recommended that research analysts be required to pass the Series 7 in addition to a more job-specific research analyst qualification examination.

Recommended Changes

Several industry members have asked the SROs to consider eliminating the Series 7 or alternative prerequisite exam. These firms argue that research analysts should only be tested on job-specific requirements, and that relevant topics on the Series 7 examination should instead be imported to the Series 86/87 examinations. The SRO staffs recommend considering this suggestion, as well as the possibility of substituting for the Series 7 prerequisite a new Capital Market Professional Examination that is being developed jointly by NASD, the NYSE and

regulators in the United Kingdom. While the content of the latter examination has not yet been precisely determined, it is anticipated that the concepts tested may provide an adequate foundation of general industry rules and practices for research analysts. The SRO staffs will be better situated to evaluate this alternative once the new examination has been fully developed and approved by the SEC.

C. Other Issues

1. Fixed-Income Research

On May 19, 2004, The Bond Market Association (“BMA”) issued its “Guiding Principles to Promote the Integrity of Fixed Income Research,” which are voluntary principles designed to help firms manage potential conflicts of interest that may arise in their fixed-income research activities.¹⁴⁴ According to the BMA, its Guiding Principles were designed to recognize the significant differences between fixed-income research and equity research, as well as the important differences in research regarding individual fixed-income asset classes.

The SRO staffs do not believe it is appropriate at this time to codify any of these principles or amend the SRO Rules to extend their provisions to fixed-income research. Instead, the SROs are monitoring the extent to which firms have adopted the BMA Guiding Principles and will consider further rulemaking after assessing the effectiveness of voluntary compliance. Meanwhile, the SRO staffs believe that the anti-fraud statutes, as well as existing SRO rules, such as NASD Rule 2110’s requirement that members “observe high standards of commercial honor and just and equitable principles of trade” and similar obligations under NYSE Rules 401 and 476(a)(6), can reach any egregious conduct involving fixed-income research.

2. Issuer Retaliation

As noted above, the source of analysts’ conflicts was not limited solely to their investment banking relationships, but also included pressure stemming from issuer retaliation. Issuer retaliation can consist of limiting an analyst’s access to company management or participation in conference calls, and interfering with other company relationships (such as by prohibiting the analyst’s firm from managing an issuer’s pension plan). The SRO Rules have insulated analysts from internal pressures from investment banking personnel by prohibiting retaliation by a member against a research analyst for issuing an unfavorable research report that adversely affects a firm’s investment banking relationship with an issuer. The prohibition against investment banking personnel’s supervising or controlling analysts or participating in the determination of analyst compensation also protects the analyst from retaliation by the investment banking department.

Protection from retaliation by an issuer rather than the investment bank is a more difficult problem to solve. The issue could be addressed through listing standards. However, the NYSE does not believe amendments to its listing standards and its limited ability to enforce such standards by delisting is practicable. In this regard, issuer retaliation, unlike other prohibited

¹⁴⁴ See Guiding Principles To Promote Integrity of Fixed Income Research, May 2004, http://www.bondmarkets.com/assets/files/Guiding_Principles_for_Research.pdf.

firm conduct, is very fact specific, qualitative rather than quantitative in nature and difficult to evaluate and discern with absolute certainty.

Accordingly, the NYSE would like to see the practical impact of the CFA/NIRI “Best Practice Guidelines Governing Analyst/Corporate Issuer Relations” which it has endorsed and communicated to its listed companies.¹⁴⁵ It will continue to monitor the impact of such Best Practices and will continue to engage the SEC in dialogue to explore other practical ways to address this issue.

3. Foreign Regulatory Initiatives

In addition to the SROs, regulators in such jurisdictions as the United Kingdom,¹⁴⁶ Canada,¹⁴⁷ Japan,¹⁴⁸ and Australia¹⁴⁹ have implemented or proposed research analyst conflict of interest rules in some form. Organizations such as the International Organization of Securities Commissions (“IOSCO”) also have issued guidelines and best practices for their members.¹⁵⁰ And the European Union Forum Group (“EU”) released a set of recommendations involving research analyst conflicts to be included in a directive targeting market abuse and promoting uniform regulations among the different European Union securities markets.¹⁵¹

These regulatory models share a common goal of reducing bias in the production and dissemination of research. At the same time, the various initiatives by these regulatory groups demonstrate that there are a number of approaches to eliminating research analyst conflicts: some organizations, like IOSCO and the EU, recommend best practices but do not impose

¹⁴⁵ The NYSE recently issued a letter to its listed companies encouraging them to consider implementing CFA/NIRI Best Practice Guidelines Governing the Relationship between Analysts and Corporate Issuers. See letter dated October 11, 2005 from Richard G. Ketchum, Chief Regulatory Officer, NYSE, to Exchange Listed Companies.

¹⁴⁶ Regulations by the Financial Services Authority, “Discussion Paper No. 15” and “Consultation Paper 171,” July 2002 and December 2003, respectively.

¹⁴⁷ Report issued by Securities Industry Committee on Analyst Standards, which was established by the Toronto Stock Exchange, the Investment Dealers Association (“IDA”) and the Canadian Venture Exchange. The report, entitled “Setting Analyst Standards: Recommendations for the Supervision and Practice of Canadian Securities Industry Analysts” was released in November 2001. IDA “Policy 11, Analyst Standards,” was issued in June and December 2002.

¹⁴⁸ Japanese Securities Dealers Association, “Rules for Handling Analysts’ Reports,” January 2002, revised January 2003.

¹⁴⁹ Securities Institute of Australia and the Securities and Derivatives Industry Association, “Best Practices Guidelines for Research Integrity,” November 2001.

¹⁵⁰ IOSCO is an international organization whose members cooperate to promote high standards of regulation to protect investors and ensure that markets are fair, efficient and transparent. In September 2003, the Technical Committee of IOSCO issued a Statement of Principles to guide securities regulators and others in addressing the conflicts of interest securities analysts may face. These principles are combined with certain more specific measures designed to eliminate or manage analysts’ conflicts of interest. The Statement of Principles can be found at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD150.pdf>.

¹⁵¹ This group issued a Report and the “Market Abuse Directive” to implement a uniform system of regulation to handle market abuses in the European Union. The Market Abuse Directive was first issued in December 2002.

regulations, while the SRO Rules and rules promulgated by the other regulators take a more prescriptive approach. These diverse regulatory models sometimes result in differing requirements that can pose challenges for firms with global research operations.

The SRO staffs support ongoing discussions with their members and international regulatory groups to promote the most effective and efficient means to manage research analyst conflicts of interest and to ensure reliable and objective research throughout the world.

VI. CONCLUSION

The SRO staffs believe that the SRO Rules have been effective in helping to restore integrity to research by minimizing the influences of investment banking and promoting transparency of other potential conflicts of interest. Evidence also suggests that investors are benefiting from more balanced and accurate research to aid their investment decisions. The SRO staffs believe that certain changes to the SRO Rules would further improve their effectiveness by striking an even better balance between ensuring objective and reliable research on the one hand and permitting the flow of information to investors and minimizing costs and burdens to members on the other.

✓

DO SECURITY ANALYSTS SPEAK IN TWO TONGUES?*

ULRIKE MALMENDIER
STANFORD UNIVERSITY

DEVIN SHANTHIKUMAR
HARVARD UNIVERSITY

Why do analysts display overoptimism about the stocks they cover? According to the selection hypothesis, analysts are truly too optimistic about the stocks they choose to cover. According to the conflict-of-interest hypothesis, analysts choose to distort their view to maximize profits via commissions and underwriting business, in particular if affiliated with an underwriting bank. We analyze the concurrent issuance of recommendations and earnings forecasts to differentiate between these two hypotheses. The selection hypothesis implies a positive correlation between overoptimism in recommendations and in forecasts. Under the conflict-of-interest hypothesis, analysts may choose to distort recommendations but to prove their analyst quality in their forecasts, which are directed towards more sophisticated, institutional investors. We find that, while affiliated analysts' recommendations are more optimistic than unaffiliated recommendations, affiliated analysts' earnings forecasts are more pessimistic than unaffiliated forecasts. Similar discrepancies between the timing and persistence of recommendations and forecasts confirm this interpretation. Additional results on trading reactions indicate that small traders react indeed more strongly to recommendations, while large traders discount recommendations and react more strongly to analyst earnings forecasts.

* Michael Jung provided excellent research assistance.

I. INTRODUCTION

Why do security analysts issue overly positive recommendations? A large literature in finance and accounting, building on Lin and McNichols (1998) and Michael and Womack (1999), provides evidence on distortions in analyst recommendations, in particular if the analyst's investment bank has an underwriting relationship with the covered firm. It is less transparent why these distortions occur. Do analysts consciously bias recommendations upwards to generate trading business and commissions, and to please clients whose securities their bank underwrites? Or is their view truly too positive, consistent with their decision to cover those firms in the first place and reinforced by their bank's decision to underwrite securities of those firms? To understand the cause of analyst overoptimism is especially important in light of the debate about optimal analyst regulation. If analyst overoptimism is due to selection and unconscious upward bias, the optimal policy would provide support to help analysts overcome the "winner's curse" rather than attempting to prove conscious distortion and implement punishments. If overoptimism is the result of misaligned incentives, the opposite is true and, in addition, there is room for restricting or moderating coverage by affiliated analysts.

In this paper we provide empirical evidence that allows distinguishing between the selection and the moral hazard hypotheses. We exploit that security analysts provide information using different modes of communication. One way analysts issue their opinion on a firm is stock recommendations. ~~Another~~ Another way is earnings forecasts. While recommendations typically target individual investors, forecasts are directed towards the more sophisticated, institutional investor. We show that the degree of overoptimism between recommendations and earnings forecasts is positively correlated for unaffiliated analysts but not for affiliated analysts. This inconsistency of affiliated analysts and additional results on the timing and persistence of recommendations and forecasts indicate that affiliated analysts make the strategic choice to distort recommendations, but not forecasts.

The question why analysts issue overly positive information arises since analysts face a well-known conflict of interests. On the one hand, they have incentives to issue precise information to satisfy customers and earn trading commissions from long-term customer relationships. On the other hand, they may distort this information upward to generate trading commissions from stock purchases¹ or to ease access to information from the management of the recommended firm.² The incentives to bias recommendations upward are even stronger for “affiliated” analysts, whose brokerage belongs to an investment bank underwriting security issuances of the firms covered by the analyst. Positive analyst coverage after an equity issuance is often viewed as part of an implicit agreement between underwriter and issuer and to be helpful in generating future underwriting business.³ Moreover, analysts’ compensation depends, either directly or indirectly, on their “support” in generating profits for the corporate finance department.⁴ For all of those reasons, it is conceivable that analysts’ overoptimism reflects strategic distortion rather than selection.

While this conflict of interest is well analyzed in the previous literature, there has been less focus on the question how the heterogeneity of investors affects the equilibrium behavior of analysts. Analysts may not choose a uniform degree of distortion (if any) for all types of investors, but rather bias information targeting one type of investor and be more accurate towards another type. The reason is that the upside of distortion is smaller the more sophisticated the investor is: A sophisticated investor is likely to detect the distortion. This is particularly true for institutional investors who have their own buy-side analysts. Moreover, the relative benefits of proving to be a high-quality analyst are larger the larger the trades of the customer. Therefore, to the extent that strategic distortion explains analyst optimism, its degree should vary between information primarily consumed by individual investors, who may take analyst information at face value, and information targeting more sophisticated, institutional investors. If, instead, the

¹ Positive recommendations are more likely to generate trading commissions than negative ones because of short-selling constraints.

² Report on Analysts Conflicts of Interest, International Organization of Securities Commissions [2003].

³ Michaely and Womack [1999].

⁴ Michaely and Womack [2003]; Hong and Kubik [2003].

overoptimism reflected the true beliefs of analysts, we would expect optimistic analysts to express their positive view also towards sophisticated investors.

In addition to the effect of heterogeneity in the degree of sophistication, the explanatory power of selection may also vary across analysts, reflecting heterogeneity in incentives. The stronger the incentives to distort information, the more likely it is that selection is not the sole cause of overoptimism and that, therefore, the degree of overoptimism varies between different types of information release.

We exploit this argument empirically in a synopsis of recommendations and earnings forecasts of affiliated and unaffiliated analysts. As shown in Malmendier and Shanthikumar (2004), stock recommendations issued by analysts have more immediate impact on the portfolio allocation decisions of individual (small) investors. The simple “buy” or “sell” message is accessible to any investors, regardless of the degree of sophistication. The same may not hold for earnings forecast. The stock price impact of a given dollar amount of earnings may be more accessible to institutional investors and their buy-side analysts. As a result, recommendations and earnings forecasts may differ in their degree of upward distortion. If the overoptimism, displayed in recommendations, reflects conscious upward distortion, analysts may moderate their view as expressed in earnings forecasts. While distorting the information primarily consumed by individual (and less sophisticated) investors they may want to prove their skills and insights to institutional (and more sophisticated) investors in the information issued targeting institutions. If the overoptimism is, instead, due to selection and reflects truly positive views, recommendation optimism and forecast optimism should be positively correlated. Finally, note that the correlation may vary between affiliated and unaffiliated analysts. Since affiliated analysts face stronger incentives to distort, recommendations and forecasts may differ more.

We test these two alternative predictions empirically using the I/B/E/S data on recommendations and one-year earnings forecasts. We first show that, while recommendations of affiliated analysts are more optimistic than those of unaffiliated analysts, the same does not

X

hold for earnings forecasts. Rather, the average earnings forecast of affiliated analysts is lower than that of unaffiliated analysts and the distribution displays less variance.

As a first indication that these discrepancies may reflect a strategic distortion decision, we show that affiliated analysts tend to update recommendations much faster upwards than downwards. Unaffiliated analysts, instead, do not display a significant difference in their updating decision. Affiliated analysts issue their – on average overly positive – recommendations only if the consensus is very high. They then simply stick to positive recommendations as long as possible without deviating too much from the overall recommendation consensus. For forecasts, however, the results are different. The timing of forecast updates of affiliated and unaffiliated analysts is virtually identical. Regardless of affiliation, analysts appear to incorporate new information at a similar speed. These findings suggest that recommendation updates are, compared to earnings forecast updates, more of a strategic choice than a mere reflection of news about the company. *

The key argument in this paper relies on the relationship of recommendations and forecasts to the consensus. We find that affiliation of any form has strong predictive power for overoptimism in recommendations, but that the same is not true for forecasts. Affiliation instead is related to more negative deviation from the consensus earnings forecast. In fact, we also find that forecast optimism is negatively correlated with recommendation optimism for affiliated analysts' annual earnings forecasts, while there is an insignificant positive correlation for unaffiliated analysts, with the difference between affiliated and unaffiliated analysts being significant.

These results suggest that affiliated analysts make a conscious decision to distort recommendations, with which they target small investors, and to display no overoptimism in their earnings forecasts, with which they target large investors. As a last step in the analysis we show that recommendations have, indeed, most impact on the trading decisions of small investors, while forecasts affect the trading decisions of large, institutional investors. Following previous market microstructure literature [Lee and Radhakrishna, 2000], we distinguish between

small (individual) and large (institutional) investors based on the size of their trades. Using trading data from the New York Stock Exchange Trades and Quotations (TAQ) database (1993-2002), we find distinctly different patterns of trade reactions to recommendations and to earnings forecasts among large and small investors. In their trade reaction to recommendations, large investors generally discount the positive content but they distinguish between affiliated and unaffiliated recommendations. Specifically, they discount recommendations of affiliated analysts more than those of unaffiliated analysts. Small investors, instead, take analyst recommendations literally: they buy in response to buy recommendations, hold in response to hold recommendations, and sell in response to sell recommendations. Moreover, small investors do not distinguish between recommendations of affiliated and unaffiliated analysts. The trade reactions to earnings forecasts look rather different. Large investors react much more strongly to earnings forecasts of affiliated analysts than to those of unaffiliated analysts. Not only is the statistical significance of large traders' reaction to earnings forecasts much higher for affiliated forecasts, but it also economically much stronger. The trade reaction to affiliated forecasts is about 64 times as strong. The trade reaction of small investors, instead, is not significant, neither for forecasts of affiliated nor for those of unaffiliated analysts.

We interpret our findings as evidence that affiliated analysts communicate to different types of investors "in different tongues." While they exaggerate the prospects of covered firms towards individual investors, they abstain from such distortions towards more sophisticated institutional investors. As a result, these dual modes of communication make analysts and large traders better off: Since the costs of distortion are larger vis-à-vis sophisticated investors, large investors receive more accurate information than small investors, and analysts profit from small investors trade reaction to overly positive recommendations while maintaining their reputation with institutional investors. Small investors, instead, are worse off compared to a world with only one type of information release. Were analysts restricted to recommendations, those would likely be less distorted. And were analysts restricted to forecasts, small investors may not be able to interpret them and not follow analysts at all, which may still make them better off. Our

findings cast doubt on the effectiveness of regulation requiring analysts simply to reveal information to all investors simultaneously. Our findings suggest that only part of the communicated information will be processed by all investors. The findings of this paper are likely to extend to other market settings in which informed agents are allowed to communicate in different modes of complexity, e.g. issue both a detailed and complicated report and also give out the punch line.

This paper relates to the evidence in Lin and McNichols [1998] and Michaely and Womack [1999] that stock recommendations by affiliated analysts are more favorable but perform more poorly over short (three-day) and long (up to two-year) horizons. Iskoz [2002] confirms these results for strong buy recommendations and provides evidence that institutional investors may be accounting for the distortions of affiliated analysts, as far as one can deduce from the quarterly changes in institutional ownership. In Malmendier and Shanthikumar [2004], we provide evidence that small investors naively follow recommendations while larger traders account for analyst bias. Ottaviani and Squintani [2004] analyze a cheap-talk model in which the receiver may be naive and believes that the sender is honest, leading to too much communication and biased equilibrium allocation. The behavioral-finance literature on investor reaction to firms' accounting choices, issuance decisions, and repurchase offers provides evidence of such naiveté.⁵ Investors appear to be "credulous" and not to discount enough for the incentives of firms to manipulate the signal. The question of whether selection or conflict of interest explains analyst overoptimism is partially analyzed in McNichols and O'Brien [1997], Lin, McNichols and O'Brien [2003] and Kolasinski and Kothari [2004]. Finally, our paper relates to the market microstructure literature on trading reactions. We employ the modified Lee and Ready [1991] algorithm to classify trades as buyer- or seller-initiated [following Odders-White 2000] and measure trade reaction as in Lee [1992], Hvidkjaer [2001], and Shanthikumar [2003].

The remainder of the paper is organized as follows. Section 2 describes the research question and research design. Section 3 provides details on the various sources of data employed

⁵ For an overview see Daniel, Hirshleifer, and Teoh [2002], esp. pp. 177 ff.

in this study. In Section 4, we present the empirical results on distortions in analyst recommendations and the lack of distortions in earnings forecasts and on the trade reaction of small and large investors. Section 5 concludes.

II. Empirical Strategy

1. Analyst Behavior

Analysts may issue upward-biased stock recommendations for two reasons. The first explanation is selection. Security analysts typically have quite a bit of say in the decision of which stocks they cover, at least beyond the largest cap stocks. They are likely to choose companies whose investment prospects they judge favorably, hoping that those are of most interest to their buy-side clients. In addition, it is simply more exciting and motivating for an analyst to research a company where he or she sees great potential. If analysts do not account for the endogenous selection, their recommendations will be affected by winner's curse and will be too positive on average. Similarly, the corporate finance division may be affected by winner's curse. The investment bank's decision to finance a particular company implies a fundamentally positive view on that company – maybe more positive than warranted by the company's performance. It is conceivable that the positive view of the corporate finance division reinforces or triggers a similar view on the side of the analyst. Similarly, it is possible that the more positive view of the analyst encourages the corporate finance division to seek out underwriting business with the given firm. In either direction of causality, the winner's curse is likely to be strongest for the analysts with an underwriting affiliation.

The second explanation is misaligned incentives. One reason analysts may bias their recommendations upwards is that buy recommendations are more likely to generate trading business than sell recommendations. A buy recommendation can induce any investor to buy a stock; a sell recommendation, however, is mostly relevant for current owners of the stocks, given the short-selling constraints investors face. In addition, analysts are exposed to pressure from the

management of the company they are covering. In order to ensure increases in shareholder value of their company, management often calls up analysts and complains about ratings that are “too low” and even tends to “freeze out” analysts who do not give positive recommendations.⁶ Similarly, buy-side clients may push sell-side analysts to maintain positive recommendations on stocks they hold.⁷

Analysts have additional reasons to distort recommendations upward if their brokerage firm is part of an investment bank that is underwriting security issuances. Favorable recommendations are generally viewed as a precondition for investment banks to get future underwriting deals and as an implicit condition of existing underwriting contracts.⁸ Analysts whose brokerage firm is associated with an investment bank are likely to be exposed to pressure (and monetary incentives) from corporate finance departments to support underwriting business with positive recommendations. As a result, analysts weigh the advantages of maintaining reputational capital to provide reliable security analyses against the incentive to generate portfolio transactions and, in the case of affiliation with an investment bank, the incentive to support underwriting business.

Analysts have, however, more than one mode of communicating their view of a company. In particular, while stock recommendations are consumed mostly by individual investors, earnings forecasts are most relevant for institutional – and as such typically more sophisticated – investors. As a result, the optimal distortion may vary between recommendations and earnings forecasts. Since sophisticated investors are more likely than individual investors to detect upward bias, the upside of distorting is more limited for earnings forecasts than for recommendations. In addition, institutional investors play a larger role in evaluating analysts, for example through the high profile annual “All-Star Analyst” list of Institutional Investor Magazine. Thus the potential costs to damaged reputation is more severe with institutional

⁶ For details on management communication with analysts see Francis, Hanna and Philbrick [1997].

⁷ Boni and Womack [2002] cite several press reports and the testimony of the (then) acting SEC chairman Laura Unger to the House Subcommittee on July 31, 2001.

⁸ See Bradley, Jordan, and Ritter [2003].

investors than with individual investors. Consistent with this argument, Mikhail, Walther and Willis (1999) provide evidence that relative earnings forecast accuracy affects analyst turnover while returns to stock recommendations do not.

In order to distinguish between the selection and the conflict-of-interest explanation for analyst overoptimism we distinguish between two scenarios. Suppose first that recommendations are not subject to strategic distortion, i.e. that it is more important for analysts to build reputational capital via reliable recommendations, even towards individual investors, and that any overoptimism is merely a result of selection. Then the same has to hold for earnings forecasts. Given the heightened risk of detection, it is even more important for analysts to give accurate earnings forecasts. In that case, any upward bias in recommendations, reflecting the analyst's true overoptimism about a firm and its future cash flows, should be positively correlated with upward bias in earnings forecasts. Suppose now that, instead, the benefits of strategic distortion are large enough to affect recommendations. In that case, earnings forecasts do not need to be affected by the distortion. Again, given the heightened risk of detection by sophisticated investors, analysts may choose to rather build up a reputation as knowledgeable and accurate. As a result, overoptimism in recommendations may have no or even negative correlation with overoptimism in forecasts. A negative correlation could, for example, result if affiliated analysts attempt to please the management for which they have cautious earnings forecasts by being particularly bullish in their recommendations. More generally, if recommendation bias is due to strategic distortion, the reduction in positive correlation or the negative correlation is likely to be strongest for affiliated analysts, given that they face the largest incentives to distort.

2. Empirical measures

In order to distinguish the above hypotheses empirically, we need to employ measures of distortion both for recommendations and for earnings forecasts as well as empirical proxies for the sophistication of investors. In addition, in order to confirm that analysts address individual

investors with recommendations and institutional investors with forecasts, we have to employ an algorithm to measure individual and institutional trade reaction.

Distortion benchmarks. Our proxies for distortion are based on the difference between an analysts' forecast or recommendation and the existing analyst consensus at the time. For annual (quarterly) earnings forecasts, the consensus calculation is based on all forecasts made during the applicable year (quarter), following the prior annual (quarterly) earnings announcement. For example, if an annual earnings announcement is expected to be made in February of 2000, we would include all earnings forecasts made following the February 1999 earnings announcement. For any given firm on any given day, we then use the most recent earnings forecast from each analyst for that firm and define the consensus as the average of these outstanding forecasts. The calculation of the recommendation consensus is similar. The key difference is that recommendations do not apply to any specific time period. We thus calculate four variations of the consensus, using 1 month, 2 months, 6 months and 12 months of prior recommendations.

The "distortion" or optimism/pessimism of the analyst is then measured as the difference between the earnings forecast or recommendation and the relevant consensus. Since earnings forecasts are measured in earnings-per-share, i.e. in dollars and cents, the difference is normalized. We use two alternate normalizations. Corresponding to the earnings-per-share measure, one normalization is price-per-share. "Distortion" is measured as the difference between earnings forecast and consensus, normalized by share price on the date of the earnings forecast. The alternate normalization is to divide the difference between earnings forecast and consensus by the absolute value of consensus, creating a percentage measure. The difference between recommendation and consensus is not normalized, since the scale is identical for all firms.

Affiliation. Our empirical measures of analyst affiliation are based on the underwriting relationship of the analyst's brokerage house with the firm the analyst is reporting on. Following

previous literature,⁹ we identify analysts as affiliated if their investment bank was the lead underwriter of an initial public offering (IPO) of the recommended stock in the past five years or of a secondary equity offering (SEO) in the past two years. We also include co-underwriters over the same respective periods. We further examine two possible sources of underwriting bias that have not been explored in the previous literature. The first source is future affiliation, i.e. banks underwriting an SEO in the next one or two years. There are several potential sources of incentives for future underwriters to issue higher recommendations, including attempts to gain the future business, pressure to increase the potential offer price of the future security offering and winner's curse. The number of additional firms we capture with this measure is small, though, since most future underwriters are in previous underwriting relationships. A second type of affiliation that has not been examined previously is bond underwriting, in particular lead underwriting of bonds in the past year. If positive coverage is part of an implicit agreement between underwriter and equity issuer, then there is no obvious reason this should be different for bond issuance.

Investor type. We separate small and large investors by trading size. Following the analysis of Lee and Radhakrishna [2000], we choose dollar cutoffs rather than share-based cutoffs in order to minimize noise in separating individuals from institutions. We also incorporate their suggestion to use two cutoffs, with a buffer zone between small and large trades. Specifically we choose the cutoffs based on results for three-month TORQ sample from 1990-91, in which actual information on the identity of traders was available to check the accuracy of the trade-size based classification method. The lower cutoff of \$20,000 splits small and medium trades, and the higher cutoff of \$50,000 splits medium and large trades.¹⁰

Trade Reaction. To capture the reaction of small and large investors to analyst recommendations, we employ measures of “directional trade” (trade initiation). These measures,

⁹ Lin and McNichols [1998]; Michaely and Womack [1999].

¹⁰ The results are robust to variations in cutoff; see Panel B of Table IX.

first developed by Lee and Ready [1991], are market microstructure algorithms that aim at capturing the buy and sell pressure exerted by traders. They exploit the fact that most trades take place when one side of the transaction demands immediate execution. Accordingly, trades are classified as “buyer-initiated” if the buyer demands immediate execution and as “seller-initiated” if the seller demands immediate execution. An abnormally high balance of buyer-initiated trades indicates buy pressure; an abnormally high balance of seller-initiated trades indicates sell pressure. In general, the side of a trade demanding faster execution represents a market order, i.e. an order to be executed immediately at the current market price. For example, investors who have received positive information about a firm and who believe that the stock price will rise would not place a limit order to buy. That limit order might never be filled. Instead, they would place a market order, and demand to buy immediately – before the price goes up further.

We use the modified version of the Lee and Ready [1991] algorithm, developed in Odders-White [2000], to determine which side initiated the trade. The algorithm matches a trade to the most recent quote that precedes the trade by at least 5 seconds. If a price is nearer the bid price it is classified as seller initiated, and if it is closer to the ask price it is classified as buyer initiated. If a trade is at the midpoint of the bid-ask spread, it is classified based on a “tick test. The tick test categorizes a trade as buyer-initiated if the trade occurs at a price higher than the price of the previous trade (uptick), and as seller-initiated if the trade is on a downtick. We drop trades at the bid-ask midpoint, which are also the same price as in preceding trades.¹¹

As a proxy of buy pressure, we will consider three measures. The net number of buy-initiated trades for firm i , investor type x , and date t is defined as

$$(1) \quad NB_{i,x,t} = buys_{i,x,t} - sells_{i,x,t}$$

The raw trade imbalance measure for firm i , investor type x , and date t is calculated as

¹¹ The original Lee-Ready algorithm employs a “zero-tick” in the case that a trade is at the bid-ask midpoint and the same price as the previous trade. Because of its low accuracy (about 60% according to Odders-White, 2000) the “zero-tick” is left out in the modified Lee-Ready algorithm.

$$(2) \quad TI_{i,x,t} = \frac{buys_{i,x,t} - sells_{i,x,t}}{buys_{i,x,t} + sells_{i,x,t}}$$

Finally, we normalize this measure by subtracting off the firm-year mean, and dividing by the firm-year standard deviation, separately for each investor type, as in Shanthikumar [2003]:

$$(3) \quad TI_{i,x,t}^{abnormal} = \frac{TI_{i,x,t} - \overline{TI}_{i,x,year(t)}}{SD(TI_{i,x,year(t)})}$$

The adjustments are made by year to account for changes in trading behavior over time. We also adjust by firm because the trading behavior for various firms may have consistent differences. These normalizations allows us to compare trading behavior over time and among firms and replaces year- and firm-fixed effects in the regression framework. Dividing by the standard deviation controls for systematic differences in the volatility of large trades and small trades or in the volatility of the stocks large and small traders invest in. It makes comparisons between small and large investors possible and rules out that a seemingly more extreme reaction is just the result of higher volatility in trade imbalances over time.

III. Data

We analyze four main sources of data: data on analyst recommendations, data on analyst earnings forecasts, data on underwriting activity, and data on securities trading.

We obtain analyst recommendations and earnings forecasts and information about the analyst identities and brokerage firms from I/B/E/S. The recommendations data are available starting from October 29, 1993, so we use this as our sample period start date.¹² I/B/E/S converts

¹² Note that the I/B/E/S data contains an unusually high number of recommendations and forecasts during the first three months of the sample period. While the number of recommendations per year – and even per month – is fairly uniform during the period from February 1994 through 2001, the first two months and three days contain a multiple of observations. While this may have to do with large

the recommendation formats of different brokerage houses into one uniform numerical format. Like other authors [Jegadeesh, Kim, Krische and Lee, 2004], we reverse the original I/B/E/S coding to the following, more intuitive scheme: 5=strong buy, 4=buy, 3=hold, 2=sell, 1=strong. A “higher” recommendation is better, and an “upgrade” translates into a positive change in the numerical value.

I/B/E/S reports earnings forecasts in earnings-per-share (EPS), and includes the realization of earnings reported by the company at the end of the period. Since earnings can be reported in many different ways, for example including extraordinary items or leaving them out of the calculation, I/B/E/S communicates with analysts in an attempt to ensure that each earnings forecast includes similar items, and the announced value reported in I/B/E/S coincides with the given definition of earnings. I/B/E/S also adjusts the reported forecasts and announcement values for stock splits, and we use the split-adjusted values. We focus on earnings forecasts of the next annual earnings figure. We eliminate observations relating to earnings announcements which occur outside of the SEC mandated reporting window of 0-90 days after the end of the fiscal year. We include earnings forecasts which occur between the prior earnings announcement date and the date of the earnings announcement to which the forecast relates. For most of our analyses, we limit the forecast sample to those forecasts with an identified analyst, but this eliminates less than two percent of the forecasts, eliminating 6,713 forecasts of the 471,985 forecasts meeting the timing requirements.

I/B/E/S reports recommendations and earnings forecasts in separate files, with slightly different notations. In order to match an analysts’ buy/sell recommendation with the same analysts’ earnings forecast, we use the analyst identity files corresponding to each dataset. The

layoffs in the securities industry during that time, it also leaves room for concerns about data consistency within the I/B/E/S sample. Due to the potential “scandal effects” from 2001 and 2002 and the reporting anomalies in the I/B/E/S data set for the early period, we repeat our tests for a sample from February 1994 through July 2001, containing 2252 securities and 2229 firms.

recommendations database uses the “amaskcd” variable and the forecast database uses the “analyst” variable as numeric analyst identification codes, which then map to names. The IBES documentation is not clear about whether these two numeric variables correspond, so to ensure a proper match, we used the analyst identity files and a combination of programmed name-matching and hand-matching to ensure a perfect match, and confirm that the two numeric codes do in fact coincide.

We use the SDC New Issues database to obtain underwriting data from 1987 to 2002. We link I/B/E/S broker firms and SDC underwriters with the company names provided by the I/B/E/S recommendation broker identification file and the SDC database. We improve the match using company websites and news articles, in particular to determine subsidiary relationships and corporate name changes. Finally, we use the mapping from Kolasinski and Kothari [2004] to identify additional matches.¹³

The raw trading data is collected from the New York Stock Exchange Trades and Quotations database (TAQ). The TAQ database reports every round-lot trade and every quote from January 1, 1993 onwards on the New York Stock Exchange, American Stock Exchange and NASDAQ. We examine ordinary common shares traded on the NYSE, excluding certificates and depository receipts. We also exclude foreign companies, Americus trust components, closed-end fund shares and REITs. The final trading sample includes 2801 securities for 2723 firms, as defined by 8-digit and 6-digit CUSIPs, respectively.

We obtain security prices, returns, and share information from CRSP, and financial variables of the companies from COMPUSTAT. The cleaned¹⁴ and merged data set extends from October 29, 1993 through December 31, 2002 (with underwriting data from 1987 on), and contains 173,950 recommendations and with linked trading data, for 2424 securities of 2397

¹³ We are very grateful to Adam Kolasinski and S.P. Kothari for providing us with their mapping, which uses corporate websites, news articles from LexisNexis, Hoover’s Online, and the Directory of Corporate Affiliations to refine the matches.

¹⁴ We drop miscoding such as Berkshire Hathaways, where the extremely high share price exceeds the number of digits available in the COMPUSTAT data set.

firms. Notice that only 12% of the firms in our NYSE sample lack recommendations, so that our final sample contains almost the entire set of domestic NYSE firms with common stock.

IV. Empirical Analysis

1. Analyst Recommendations and Earnings Forecasts

Table 1 shows sample statistics for the recommendations in the merged dataset. In Panel A, we display the distribution of recommendations across categories both for the full set of analysts and for affiliated analysts, further subdivided by the type of underwriting relationship. Strikingly, the vast majority of recommendations fall into the top three categories, “hold”, “buy” and “strong buy.” Fewer than 5% of all recommendations are “sell” or “strong sell.” The recommendations are even more positive for analysts whose brokerage house has an underwriting relationship with the covered firm. The proportion of “buy” and “strong buy” recommendations is higher for analysts with an underwriting relationship, and the proportion of “sell” and “strong sell” is even lower than for the unaffiliated analysts. The upward shift in recommendations is most pronounced for future equity underwriting, and least pronounced for bond underwriting, but is present for all five categories we examine. Analysts whose brokerage houses do not underwrite any security issuance during the 1987-2002 period have the least positive recommendations and the most sell and strong sell recommendations.

In Panel B, we display the distribution for the subsample of firms that have issued stock in an SEO during the past 2 years or an IPO during the past 5 years, or that have issued bonds during the past one year. Examining the recommendations of affiliated and unaffiliated analysts on this subsample allows us to investigate whether the (additional) upward shift in recommendations of affiliated analysts is simply due to better prospects of firms that access the capital market for external financing. We find that this is not the case. As in the full sample in Panel A, there is a clear upward shift in recommendations when an analyst has an underwriting relationship, also within the subsample of firms that *can* have affiliated analysts.

In the remainder of this paper, we analyze why this occurs. Is the upward shift due to incentive conflicts or moral hazard? Or, alternatively, is the upward shift could due to self-selection? In order to separate whether analysts are genuinely more optimistic about companies with which their brokerage firm has an underwriting relationship or whether the shift is due to analyst incentives, we present a synopsis of at earnings forecasts as well.

Table II shows similar statistics for forecasts of annual earnings-per-share, pertaining to the announcement following the earnings forecast date. The average earning forecast is \$1.67 per share, and the earnings forecasts tend to be positive in general, with even the 25th percentile being \$0.78. This is consistent with the predominance of non-negative earnings announcements. In sharp contrast to the recommendations, the earnings forecasts are actually lower for affiliated analysts than for unaffiliated analysts, with the exception of bond underwriting affiliated analysts. The earnings forecasts are lowest for IPO and SEO lead underwriters and future SEO underwriters. In fact, the mean earnings forecast of affiliated analysts is significantly lower for all categories other than bond underwriting. (The difference is also significant for all categories of affiliated analysts considered together, including bond underwriters.) Moreover, the distribution of earnings forecast of affiliated analysts displays less variance.

As shown in Panel B, these patterns also hold when the sample is limited to recent security issuers. The results regarding future SEO underwriters are particularly noteworthy. If analysts of future underwriting firms were overly optimistic about the firms, we would expect them to have higher earnings forecasts. Similarly, if they were using positive earnings forecasts to try and win underwriting business, we would expect higher earnings forecasts. Instead we see the reverse, suggesting both that analysts are not overly optimistic and that they are not using earnings forecasts to entice potential investment banking clients.

Table III shows similar statistics for forecasts of quarterly earnings-per-share, pertaining to the announcement following the earnings forecast date. As with annual earnings, equity-underwriting affiliated analysts issue significantly lower earnings-per-share forecasts than unaffiliated analysts. The earnings forecasts are in general positive, at levels which are roughly

one quarter of the annual earnings-per-share forecasts. The earnings forecasts are significantly higher for bond-underwriting affiliated analysts than for unaffiliated analysts, but for IPO and SEO lead and co-underwriters, and for future SEO underwriters, the earnings forecasts are significantly lower than for unaffiliated analysts. Panel B again shows the statistics for the sample limited to recent security issuers, and shows that unaffiliated earnings forecasts are actually significantly higher for these firms than other firms. This makes the difference between affiliated and unaffiliated analysts' quarterly earnings-per-share forecasts even stronger.

In order to further pin down “distortions” in the recommendations of affiliated analysts, we consider the timing of the different types of recommendations and earnings forecasts. It is conceivable that part of the upward bias is due to quicker reactions of affiliated analysts to news about the company. They may issue a “strong buy” as soon as they receive indications of future growth prospects, even if they have to revise it soon after. We find, however, that affiliated analysts update their recommendations more slowly, waiting 50 more days on average, and that this difference is entirely driven by positive recommendations (Table IV, Panel A). While affiliated analysts are faster to update negative and hold recommendations, they preserve their positive recommendations about 70 days more than unaffiliated analysts. A similar picture emerges if we divide recommendations into upgrades and downgrades as shown in the lower portion of Panel A. Affiliated analysts wait about two and a half months longer than unaffiliated analysts before downgrading a stock. (The regression analysis in Panel B shows that the differences in timing are significant.)

Note the difference in the speed of upgrading and downgrading in itself is consistent with both the selection and the moral-hazard explanation. If affiliated analysts truly have an overly optimistic view of the company they cover, they will also put more weight on positive news, which are consistent with their prior, than on negative news. If affiliated analysts strategically distort recommendations, they may stick to positive recommendations longer than to negative ones. This updating strategy is useful to “hide in the crowd”: rather than deviating visibly from the recommendations of unaffiliated analysts they simply do not adjust to negative information

as fast as unaffiliated analysts, and they are instead particularly fast to adjust to positive information. However, if the selection argument applies, we would expect similar differences in the persistence of earnings forecasts.

Table V displays similar statistics for the timing of annual earnings forecasts and Table VI displays similar statistics for the timing of quarterly earnings forecasts. While there is a significant difference between affiliated analysts' recommendation timing and unaffiliated analysts' recommendation timing, we do not find a significant difference for earnings forecasts. Affiliated analysts update forecasts which are equal to the consensus more quickly than unaffiliated analysts, but update forecasts below the consensus or above the consensus at almost exactly the same speed as unaffiliated analysts, for both their annual and quarterly earnings forecasts. In contrast to the recommendations, which affiliated analysts issue less frequently than unaffiliated analysts, the forecast frequency is almost identical for affiliated and unaffiliated analysts. The key difference occurs for annual earnings forecasts which are followed by an earnings-per-share estimate decrease, and in this case affiliated analysts do hold the forecast longer than unaffiliated analysts. While this does point to some shift in the incorporation of negative information, the results are still in sharp contrast to recommendations behavior, which shows a drastic shift in timing using virtually every measure.

While the lack of a difference in the forecast updating behavior of affiliated and unaffiliated is striking, the different nature of annual earnings forecast certainly plays some role. In particular, companies release earnings news every quarter. Analysts may feel compelled to react to these news in a timely manner. However, this does not rule out significantly different updating behavior of affiliated and unaffiliated analysts, and there is no similar regular news item to force quarterly forecast updating. In particular, for both quarterly and annual earnings forecasts, affiliated analysts could well exploit more of the 90-day interval between quarterly announcements. Thus the discrepancy between the updating decision in the case of recommendations and in the case of earnings forecasts gives some first indication that analysts may strategically choose to bias recommendations upwards.

While the recommendation timing differences (and the lack thereof for earnings forecasts) indicate that affiliated analysts incorporate negative news into their recommendations systematically more slowly than positive news, the results do not imply that affiliated analysts stand out in always being the first to increase their recommendation after positive news. We thus compare the recommendations of the different analyst groups to the average recommendation over the preceding one to 12 months (Table VII, Panel A). We restrict the sample to those firms with recent stock or bond issuances, to reduce the impact of any heterogeneity in the stocks that “affiliated” and “unaffiliated” analysts cover. Over a one or two-month horizon the recommendations of any type of affiliated analyst typically lie significantly above the consensus while the recommendations of “never affiliated” analysts are always significantly lower than the consensus. The effect gets weaker for IPO lead-underwriters and equity co-underwriters the longer backwards the consensus is constructed. This implies that affiliated analysts tend to issue their generally positive recommendations when the consensus is gradually declining. However, conditional on a level of recommendation, affiliated analysts are deviating less from the current consensus than unaffiliated analysts (Panel B). In other words, affiliated analysts issue their positive recommendations when the consensus is high – in fact, when the consensus is higher than the level at which unaffiliated analysts issue positive recommendations. In other words, affiliated analysts issue positive recommendations when other analysts are issuing positive recommendations as well, but then maintain these recommendations significantly longer than unaffiliated analysts. These additional results confirm that affiliated analysts are “hard to detect in the crowd.” Rather than identifying the optimistic view when other analysts are more cautious, they wait until the majority view is positive before they increase their rating, and then simply do not downgrade as fast as their unaffiliated colleagues.

Tables VIII and IX display a similar analysis for annual and quarterly earnings forecasts respectively. Here we compare earnings forecasts to the existing consensus. We again limit the sample to recent stock or bond issuers to ensure that affiliation is possible for all the included stocks. The regression results show that IPO lead-, SEO lead- and equity co-underwriters issue

forecasts that are significantly lower than the consensus. Using both measures of earnings forecast optimism, SEO lead underwriters and equity co-underwriters are significantly more pessimistic than unaffiliated analysts, while we have seen that their recommendations are significantly more optimistic. For IPO lead underwriters the results are slightly less clear, with insignificant coefficients for quarterly earnings forecasts. But even for this group, the contrast between earnings forecast and recommendation behavior is sharp – with zero or negative differences on earnings forecasts and significantly positive differences on recommendations.

Both of the recommendation and the forecast comparison to the consensus are hard to reconcile with the selection story, as we would expect these analysts to have a more positive view of the firm than other analysts, and thus issue higher earnings forecasts, if there was an underwriting winner's curse.

The most immediate test of the two explanations for positive recommendations is a direct comparison of recommendation optimism and earnings forecast optimism. It appears that recommendations are more optimistic when an analyst has an underwriting affiliation with a covered firm, while earnings forecasts are more pessimistic. In order to test whether the same analyst who is issuing a more positive recommendation abstains from issuing a more positive earnings forecast, we directly link the recommendations and forecasts made by a given analyst. We compare the “optimism” of the forecasts and recommendations measured by the difference between the recommendation or forecast and the existing consensus variables at the time of the earnings forecast.

The results are reported in Table X. The sample is limited to earnings forecasts which occur between 15 and 70 days before the relevant earnings announcement, to exclude earnings forecasts which are most likely to be subject to adverse incentives, those just before or just after an earnings announcement. The sample is also limited to recent issuers, as above. Panel A displays the relationship between recommendations and annual earnings forecasts. We find that for unaffiliated analysts there is roughly a zero relation between forecast optimism and recommendation optimism, with a positive but insignificant coefficient estimate. In contrast, for

affiliated analysts there is a significantly negative coefficient for the regression of forecast optimism on recommendation optimism. A negative relation means that the more positive an affiliated analysts' recommendation, the more negative his earnings forecast will be. In addition, the difference between the unaffiliated and affiliated analyst relations is statistically significant, with the relation going from insignificantly positive to significantly negative. Particularly given that the intercept estimates are virtually identical for the two groups, this implies that affiliated analysts will issue lower earnings forecasts for the same recommendation level. This evidence points strongly towards the "incentive conflict" explanation of affiliated analysts' recommendations rather than the "winner's curse" story. With the "winner's curse" story, we would expect optimism in both forecasts and recommendations for the affiliated analysts, or at least independence between the two. An explicit negative relationship suggests that the different incentives described in section II.1 are influencing the two issuances. Panel B displays the relationship between recommendations and quarterly earnings forecasts. For unaffiliated analysts, there is a significantly positive relationship between forecast and recommendation optimism, while there is an insignificant negative coefficient for affiliated analysts. The difference between the two slope coefficients is marginally significant, at the 10% level. There is a strong significant difference between the intercepts for the two groups of analysts in addition. The intercept is significantly more negative for affiliated analysts than unaffiliated analysts, so while they are not explicitly issuing more positive recommendations and more negative earnings forecasts together, they are issuing more negative forecasts in general, independent of their recommendation levels. Both the annual and quarterly earnings forecast results show a significant difference between how affiliated and unaffiliated analysts issue directly related earnings forecasts and buy/sell recommendations.

2. Trade Reaction

As the final piece of our analysis, we explore which type of investors reacts to which type of information issued by security analysts. In particular, we would like to test whether small, individual investors and large, institutional investors display no significant difference in their

reaction to recommendations and forecasts, or whether in fact small investors react to recommendations but less to earnings forecasts. If this were the case then analysts maybe indeed be able to satisfy their clients demand to issue more positive predictions about the firm through the recommendations, while maintaining their reputations with more sophisticated investors through their earnings forecasts.

We examine trade reactions to both buy/sell recommendations and earnings forecasts. Table XI displays sample statistics for the buying and selling patterns of small and large traders. Panel A displays statistics for the full trading sample, for all stocks in our recommendations and forecast samples, while Panel B shows statistics for recommendation event days, and Panel C reports statistics for earnings forecast event days. Small traders tend to make more trades than large traders, making over twice as many on a standard day. The gap is smallest on earnings forecast dates when small traders make only 50% more trades than large traders. Both trade-size groups increase their buying and their selling on recommendations and earnings forecast event days, with both the number of trades and the dollar value traded increasing in both groups.

Table XII displays trading reactions to buy/sell recommendations and Table XIII reports trading reactions to earnings forecasts. Table XII, Panel A, shows that small investors react more positively to analyst buy/sell recommendations than large traders do. Replicating the results of Malmendier and Shanthikumar (2004), we find that large investors discount recommendations while small investors follow them literally. For example, large investors have a negative reaction to a hold recommendation, the reaction of small investors is not significantly different from zero. Small investors react as strongly to a buy recommendation as large investors do to a strong buy, and small investors react over twice as positively to a strong buy as large traders. In addition, large traders shift recommendations downwards when an analyst is affiliated, to the point that large traders have a slightly negative coefficient on affiliated strong buy recommendations. In contrast, small traders make almost no adjustment if the analyst is affiliated. In additional regressions (not reported), we find that small investors react significantly more strongly to buy/sell recommendations even when if we control for prior recommendations, possible front-

running, analyst firm-size and various other factors are considered. Panel B shows a regression format that is more comparable to the one we use for earnings forecasts. Both small and large traders exhibit significantly positive slope coefficients – indicating that they do buy more when a buy/sell recommendation level is higher. Small traders exhibit a significantly higher sensitivity to the level of recommendation for affiliated recommendations than for unaffiliated recommendations. Small traders also have higher intercepts for both groups than large traders, buying more regardless of the level of recommendation.

Table XIII reports reactions of both small and large traders to earnings forecasts made by affiliated and unaffiliated analysts, and the results are again very different. Panel A displays results for annual earnings forecasts. Large traders react significantly positively to annual earnings forecast revisions made by both unaffiliated and affiliated analysts, with a statistically significantly more positive reaction to affiliated analysts than to unaffiliated analysts. Moreover, we observe a huge difference in economic significance. Large investors react about 64 times as strongly to forecasts of affiliated analysts than to those of unaffiliated analysts. In contrast, small traders display no significant reaction to earnings forecasts made by unaffiliated analysts. The estimated coefficient for small trade reaction to affiliated analysts is negative, although it is not statistically significant. Panel B displays a similar analysis of quarterly earnings forecasts. Large traders react significantly positively to quarterly earnings forecast revisions by unaffiliated analysts. While their reaction to affiliated analysts is not significantly positive, the coefficient estimate is slightly higher than for unaffiliated analysts. In contrast, the estimated coefficients for small trade reaction are negative.

These results show that in general, large traders react much more strongly to earnings forecasts than small traders do, and that large traders react even more strongly to annual earnings forecasts made by affiliated analysts. Both sets of results support the idea that analysts target large traders with their earnings forecasts and small traders with their buy/sell recommendations.

V. Conclusion

In this paper, we provide evidence on the cause of optimism bias in analyst recommendations. We show that affiliated analysts issue more positive recommendations on average but do not display the same optimism in their forecasts. Rather, optimism in recommendations and optimism in annual earnings forecasts appear to be negatively correlated for affiliated analysts. For unaffiliated analysts, however, we find a positive correlation between these two types of upward bias. Our findings suggest that affiliated analysts strategically choose to display recommendation optimism towards small investors, while they abstain from doing so towards large investors. The trade reaction of small and large investors is consistent with this hypothesis. Large investors strongly react to earnings forecasts, in particular those of affiliated analysts, while they discount recommendations. The opposite is true for small investors. While unaffiliated analysts, who display overoptimism in their recommendations, may thus be expressing their truly overoptimistic view, affiliated analysts appear to react to incentive misalignment towards investors.

Our findings also have implications for the policy debate about the appropriate regulations to be imposed on brokerage houses. Our results suggest that the question is not how to “help” affiliated analysts overcome winner’s curse, but rather how to ensure that they abstain from strategic distortion.

The problem analyzed in this paper may have more general applicability. Broadly speaking, it is one example where allowing an informed agent to communicate “in different tongues,” i. e. using more or less complex language, with uninformed but heterogeneous agents may harm the less sophisticated among them. To the extent that policy makers would like to ensure that the decision-making of less sophisticated investors is, if not informed, at least not based on misleading information, they may want to restrict differentiated information transmission of financial intermediaries.

References

- Boni, Leslie and Kent L. Womack, "Solving the Sell-Side Research Problem: Insights from Buy-Side Professionals," *Working Paper*, (2002).
- Hong, Harrison and Jeffrey D. Kubik, "Analyzing the analysts: Career concerns and biased earnings forecasts," *Journal of Finance*, LVIII, (2003), 313-351.
- Hvidkjaer, Soeren, "A Trade-based Analysis of Momentum," *mimeo*, (2001).
- International Organization of Securities Commissions, Report of the IOSCO Technical Committee on Analysts Conflicts of Interest, September 2003.
- Iskoz, Sergey, "Relative Performance and Institutional Reaction to Underwriter Analyst Recommendations," *Working Paper*, (2002).
- Kolasinski, Adam and S.P. Kothari, "Analyst Objectivity and Investment Banking Relationships: Evidence on Analysts Affiliated with M&A Advisors." *MIT Working Paper*, (2004).
- Lee, Charles M. C., "Earnings News and Small Traders: An Intraday Analysis," *Journal of Accounting and Economics*, XV, (1992), 265-302.
- Lee, Charles M. C., and Balkrishna Radhakrishna, "Inferring Investor Behavior: Evidence from TORQ Data," *Journal of Financial Markets*, III, (2000), 83-111.
- Lee, Charles M. C., and Mark J. Ready, "Inferring Trade Directions from Intraday Data," *Journal of Finance*, XLVI, (1991), 733-746.
- Lin, Hsiou-wei and Maureen F. McNichols, "Underwriting Relationships, Analysts' Earnings Forecasts and Investment Recommendations," *Journal of Accounting and Economics*, XXV, (1998), 101-127.
- Lin, Hsiou-wei, McNichols, Maureen F. and Patricia C. O'Brien, "Analyst Impartiality and Investment Banking Relationships," *Working Paper*, 2003.
- McNichols, Maureen F. and Patricia C. O'Brien "Self-Selection and Analyst Coverage," *Journal of Accounting Research*, XXXV, (1997), 167-199.
- Malmendier, Ulrike and Devin Shanthikumar, "Are Investors Naïve about Incentives?" NBER Working Paper 10812, (2004).
- Michaely, Roni and Kent L. Womack, "Conflict of Interest and the Credibility of Underwriter Analyst Recommendations," *Review of Financial Studies*, XII, (1999), 653-686.

- _____ and _____, "Brokerage Recommendations: Stylized Characteristics, Market Responses, and Biases," in Richard Thaler, ed., *Advances in Behavioral Finance II*, forthcoming (2003).
- Mikhael, Michael B., Beverly R. Walther, Richard H. Willis, "Does Forecast Accuracy Matter to Security Analysts?," *The Accounting Review*, LXXIV, (1999), 185-200.
- Morgan, John and Phillip Stocken, "An Analysis of Stock Recommendations," *Journal of Economics*, XXXIV, (2003), 183-203.
- Odders-White, Elizabeth R, "On the Occurrence and Consequences of Inaccurate Trade Classification," *Journal of Financial Markets*, III, (2000), 259-286.
- Ottaviani, Marco and Francesco Squintani, "Non-Fully Strategic Information Transmission," *Working Paper*, (2004).
- Schotter, Andrew, "Decision Making in the Face of Naive Advice," *American Economic Review, Papers & Proceedings*, (2003).
- Shanthikumar, Devin, Small Trader Reactions to Consecutive Earnings Surprises, *Working Paper* (2003).

TABLE 1. Sample of Recommendations

Panel A: Entire Sample	Sample size	Percentage by category				Numerical translation ¹	
		Strong		Strong		Mean	Standard Deviation
		Sell	Hold	Buy	Buy		
All	121,130	1.72	2.86	36.84	32.90	3.78	0.92
Unaffiliated	110,113	1.82	2.95	37.75	32.27	3.76	0.92
Affiliated	8,466	0.73	1.61	25.68	39.56	4.01	0.84
IPO lead-underwriting (past 5 years)	1,104	0.63	1.45	23.82	38.41	4.07	0.84
SEO lead-underwriting (past 2 years)	1,198	0.42	1.50	21.87	39.90	4.10	0.82
Co-underwriting equity ²	4,143	0.99	1.62	26.43	38.79	4.00	0.86
Future SEO (next 2 years)	665	0.00	0.30	14.29	45.56	4.25	0.70
Bond lead underwriting (past year)	2,083	0.62	1.87	27.99	39.85	3.96	0.84
Never Affiliated ³	6,418	3.91	4.25	36.63	28.01	3.70	1.04

Panel B: Subsample of firms with an IPO in the past 5 years, an SEO in the past 2 years or a bond issue in the past year	Sample size	Percentage by category				Numerical translation ¹	
		Strong		Strong		Mean	Standard Deviation
		Sell	Hold	Buy	Buy		
All	54,952	1.55	2.47	34.99	33.73	3.83	0.91
Unaffiliated	45,523	1.71	2.59	36.70	32.58	3.79	0.92
Affiliated ⁴	8,237	0.75	1.65	25.88	39.43	4.01	0.85

Sample period is 10/29/1993 to 1/23/2002.

¹ The numerical translation scheme is 1=strong sell, 2=sell, 3=hold, 4=buy, 5=strong buy.

² We exclude co-underwriters who are also lead underwriters of SEO or IPO issuances to eliminate the large number of double-counts in this particular category.

³ A brokerage firm is "Never Affiliated" if it does not have any (lead or co-underwriter) equity or bond underwriting affiliation during the entire sample period.

⁴ "Affiliated" summarizes the same categories as in Panel A (IPO in the past 5 years, SEO in the past 2 years, IPO/SEO co-underwriting over the same horizons, future underwriting in the next 2 years, and bond underwriting in the next year).

TABLE II. Sample of Annual Earnings Forecasts

Earnings Forecasts are reported in dollar earnings-per-share. The sample is limited to forecasts pertaining to the closest following annual earnings-per-share announcement, and to earnings announcements which occur during the SEC mandated window of 0-90 days after the end of the relevant fiscal year.

Panel A: Entire Sample		Sample size	Mean	Std. Dev.	Minimum	Maximum	Percentile		
							25th	50th	75th
All		471,931	1.67	1.73	-45.05	30.00	0.78	1.41	2.25
Unaffiliated		459,063	1.67	1.73	-45.05	30.00	0.78	1.41	2.25
Affiliated		10,315	1.58	1.80	-10.85	29.50	0.70	1.25	2.08
	IPO lead-underwriting (past 5 years)	967	1.15	1.10	-5.15	6.60	0.57	1.04	1.62
	SEO lead-underwriting (past 2 years)	1,316	1.29	1.13	-2.10	7.20	0.60	1.17	1.72
	Co-underwriting equity ¹	5,706	1.41	1.96	-10.85	29.50	0.60	1.10	1.80
	Futurc SEO (next 2 years)	792	1.23	1.03	-4.40	5.35	0.58	1.15	1.75
	Bond lead underwriting (past year)	2,406	2.31	1.71	-6.85	10.40	1.11	1.98	3.23
	Never Affiliated ²	187,812	1.71	1.76	-40.00	30.00	0.79	1.45	2.30

Panel B: Subsample of firms with an IPO in the past 5 years, an SEO in the past 2 years or a bond issue in the past year		Sample size	Mean	Std. Dev.	Minimum	Maximum	Percentile		
							25.00	50.00	75.00
All		205,254	1.77	1.68	-15.90	30.00	0.80	1.48	2.42
Unaffiliated		194,110	1.78	1.67	-15.90	30.00	0.80	1.49	2.45
Affiliated ³		10,027	1.58	1.82	-10.85	29.50	0.69	1.25	2.10

Sample period is 10/29/1993 to 12/31/2002

¹ We exclude co-underwriters who are also lead underwriters of SEO or IPO issuances to eliminate the large number of double-counts in this particular category.

² A brokerage firm is "Never Affiliated" if it does not have any (lead or co-underwriter) equity or bond underwriting affiliation during the entire sample period.

TABLE III. Sample of Quarterly Earnings Forecasts

Earnings Forecasts are reported in dollar earnings-per-share. The sample is limited to forecasts pertaining to the closest following quarterly earnings-per-share announcement, and to earnings announcements which occur during the window of 0-50 days after the end of the relevant fiscal quarter. The SEC mandated window is 0-45 days.

Panel A: Entire Sample								Percentile	
	Sample size	Mean	Std. Dev.	Minimum	Maximum	25th	50th	75th	
All	426,478	0.40	0.49	-62.50	15.00	0.17	0.34	0.57	
Unaffiliated	417,384	0.40	0.49	-62.50	15.00	0.17	0.34	0.57	
Affiliated	9,094	0.40	0.46	-5.01	7.00	0.15	0.32	0.56	
IPO lead-underwriting (past 5 years)	723	0.28	0.33	-1.81	1.33	0.12	0.25	0.43	
SEO lead-underwriting (past 2 years)	1,237	0.33	0.30	-0.98	2.05	0.15	0.30	0.46	
Co-underwriting equity ¹	4,631	0.34	0.48	-5.01	7.00	0.12	0.28	0.46	
Future SEO (next 2 years)	773	0.32	0.31	-1.40	1.55	0.14	0.27	0.50	
Bond lead underwriting (past year)	2,517	0.57	0.47	-1.44	3.15	0.26	0.51	0.78	
Never Affiliated ²	162,592	0.41	0.51	-62.50	8.17	0.17	0.35	0.58	

Panel B: Subsample of firms with an IPO in the past 5 years, an SEO in the past 2 years or a bond issue in the past year								Percentile	
	Sample size	Mean	Std. Dev.	Minimum	Maximum	25th	50th	75th	
All	186,596	0.43	0.46	-8.00	15.00	0.19	0.37	0.62	
Unaffiliated	177,812	0.44	0.46	-8.00	15.00	0.19	0.37	0.62	
Affiliated ³	8,784	0.40	0.46	-5.01	7.00	0.15	0.32	0.56	

Sample period is 10/29/1993 to 12/31/2002

¹ We exclude co-underwriters who are also lead underwriters of SEO or IPO issuances to eliminate the large number of double-counts in this particular category.

² A brokerage firm is "Never Affiliated" if it does not have any (lead or co-underwriter) equity or bond underwriting affiliation during the entire sample period

³ "Affiliated" summarizes the same categories as in Panel A (IPO in the past 5 years, SEO in the past 2 years, IPO/SEO co-underwriting over the same horizons, future underwriting in the next 2 years, and bond underwriting in the next year)

TABLE IV. Persistence of Recommendations

Panel A. Sample Statistics

	Mean (median) number of days until new recommendation (same stock, same analyst)					
	Overall	Strong Sell	Sell	Hold	Buy	Strong Buy
Unaffiliated	307.9 (181)	186.1 (98)	181.4 (103)	323.4 (180)	292.7 (176)	331.9 (207)
Affiliated (IPO, SEO, co-underwriters)	357.2 (228)	103.2 (57)	90.9 (59)	296.1 (182)	360.7 (230)	403.3 (272)

	Mean (median) number of days until new recommendation (same stock, same analyst)	
	Before Upgrade	Before Downgrade
Unaffiliated	297.2 (162)	316.8 (193)
Affiliated (IPO, SEO, co-underwriters)	301.6 (178)	390.8 (259)

Sample Period is 10/29/1993 to 12/31/2002.

Panel B. OLS Regression

All independent variables are binary. Excludes recommendations which are reiterations of the prior recommendation. Sample Period is 10/29/1993 to 12/31/2002. Standard errors in parentheses.

	Days until new recommendation (same stock, same analyst)			
	(1)		(2)	
(Strong Sell, Sell, Hold)	292.1	(2.2)	292.1	(2.2)
(Buy)	270.9	(2.3)	271.1	(2.3)
(Strong Buy)	308.2	(2.6)	308.2	(2.6)
(Strong Sell, Sell, Hold)* (Any Affiliation)	-33.9	(12.3)		
(Strong Sell, Sell, Hold)* (IPO Affiliation)			-17.5	(31.4)
(Strong Sell, Sell, Hold)* (SEO Affiliation)			-6.7	(29.8)
(Strong Sell, Sell, Hold)* (Co-Affiliation)			-43.3	(14.7)
(Buy)* (Any Affiliation)	50.4	(9.4)		
(Buy)* (IPO Affiliation)			26.1	(22.1)
(Buy)* (SEO Affiliation)			89.6	(21.6)
(Buy)* (Co-Affiliation)			39.5	(11.3)
(Strong Buy)* (Any Affiliation)	33.7	(10.3)		
(Strong Buy)* (IPO Affiliation)			65.8	(23.0)
(Strong Buy)* (SEO Affiliation)			49.1	(24.4)
(Strong Buy)* (Co-Affiliation)			17.6	(12.6)
Number of Observations	66,403		66,403	
R ²	0.4184		0.4185	

TABLE V. Persistence of Annual Earnings Forecasts

Panel A. Sample Statistics

	Mean (median) number of days until new recommendation			
	Relative to Consensus			
	Overall	Less than	Equal to	Greater than
Unaffiliated	63.1 (54)	59.6 (49)	89.1 (76)	65.1 (56)
Affiliated (IPO, SEO, co-underwriters)	64.1 (55)	59.1 (49)	87.2 (74)	66.6 (59)

	Mean (median) number of days until new forecast (same	
	Before Increase	Before Decrease
Unaffiliated	64.4 (56)	62.0 (51)
Affiliated (IPO, SEO, co-underwriters)	64.0 (57)	64.3 (54)

Sample Period is 10/29/1993 to 12/31/2002.

Panel B. OLS Regression

All independent variables are binary. Excludes forecasts which are reiterations of the prior

	Days until new forecast (same stock, same analyst)			
	(1)		(2)	
Greater than Consensus	65.1	(0.1)	65.1	(0.1)
Equal to Consensus	89.1	(0.5)	89.0	(0.5)
Less than Consensus	59.6	(0.1)	59.6	(0.1)
(Greater than Consensus)* (Any Affiliation)	1.4	(1.0)		
(Greater than Consensus)* (IPO Affiliation)			4.8	(3.0)
(Greater than Consensus)* (SEO Affiliation)			-3.7	(2.5)
(Greater than Consensus)* (Co-Affiliation)			2.2	(1.2)
(Equal to Consensus)* (Any Affiliation)	-1.8	(2.7)		
(Equal to Consensus)* (IPO Affiliation)			7.8	(5.7)
(Equal to Consensus)* (SEO Affiliation)			-0.1	(6.7)
(Equal to Consensus)* (Co-Affiliation)			-4.2	(3.3)
(Less than Consensus)* (Any Affiliation)	-0.5	(1.0)		
(Less than Consensus)* (IPO Affiliation)			0.0	(3.1)
(Less than Consensus)* (SEO Affiliation)			0.0	(2.4)
(Less than Consensus)* (Co-Affiliation)			-0.9	(1.1)
Number of Observations	317,628		317,628	
R ²	0.6309		0.6309	

TABLE VI. Persistence of Quarterly Earnings Forecasts

Panel A. Sample Statistics

	Mean (median) number of days until new recommendation (same Relative to Consensus)			
	Overall	Less than	Equal to	Greater
				than
Unaffiliated	39.48 (38.0)	38.34 (36.0)	44.54 (47.0)	39.15 (37.0)
Affiliated (IPO, SEO, co-underwriters)	40.07 (40.0)	38.81 (39.0)	42.57 (43.5)	40.19 (38.0)

	Mean (median) number of days until new forecast (same stock,	
	Before Increase	Before Decrease
Unaffiliated	39.24 (37)	39.60 (38)
Affiliated (IPO, SEO, co-underwriters)	40.84 (41)	39.68 (39)

Sample Period is 10/29/1993 to 12/31/2002.

Panel B. OLS Regression

All independent variables are binary. Excludes forecasts which are reiterations of the prior recommendation.

	Days until new recommendation (same stock, same analyst)			
	(1)		(2)	
Greater than Consensus	39.150	(0.114)	39.148	(0.114)
Equal to Consensus	44.535	(0.205)	44.530	(0.205)
Less than Consensus	38.336	(0.110)	38.340	(0.110)
(Greater than Consensus)* (Any Affiliation)	1.044	(1.029)		
(Greater than Consensus)* (IPO Affiliation)			6.962	(3.085)
(Greater than Consensus)* (SEO Affiliation)			-0.644	(2.442)
(Greater than Consensus)* (Co-Affiliation)			0.696	(1.201)
(Equal to Consensus)* (Any Affiliation)	-1.967	(1.402)		
(Equal to Consensus)* (IPO Affiliation)			-0.094	(3.522)
(Equal to Consensus)* (SEO Affiliation)			-0.159	(2.900)
(Equal to Consensus)* (Co-Affiliation)			-2.608	(1.747)
(Less than Consensus)* (Any Affiliation)	0.478	(0.944)		
(Less than Consensus)* (IPO Affiliation)			4.372	(3.108)
(Less than Consensus)* (SEO Affiliation)			-2.704	(2.180)
(Less than Consensus)* (Co-Affiliation)			0.448	(1.096)
Number of Observations	100,345		100,345	
R ²	0.7437		0.7437	

TABLE VII. Comparison of Recommendations to Consensus

Panel A.

OLS regression of the difference between individual analyst recommendations and average analysts recommendations over the past 1, 2, 6, or 12 months respectively on affiliation dummies. A positive difference indicates that the analyst is more optimistic relative to the consensus. The sample is limited to stocks with at least one recommendation in the prior X months, and full data availability for the prior x months. The sample is also limited to those stocks with recent issuances, for which past affiliation is possible, that is stocks with an IPO in the past 5 years, SEO in the past 2 years or bond issuance in the past 1 year. The sample period is 10/29/1993 to 12/31/2002. Standard errors in parentheses.

	Difference to consensus over last x months			
	1 month	2 months	6 months	12 months
Type of Affiliation				
IPO lead-underwriter (past 5 yrs)	0.037 0.018	0.040 0.021	0.031 0.025	0.001 0.027
SEO lead-underwriter (past 2 yrs)	0.082 0.017	0.101 0.020	0.115 0.024	0.123 0.026
Co-underwriter	0.039 0.009	0.039 0.011	0.024 0.013	0.004 0.014
Future underwriter (next 1 yr.)	0.063 0.013	0.092 0.015	0.136 0.018	0.145 0.019
Bond underwriter (past 1 yr.)	0.076 0.034	0.100 0.040	0.160 0.048	0.193 0.052
Never Affiliated (to any firm)	-0.033 0.012	-0.038 0.014	-0.072 0.016	-0.082 0.018
Constant	-0.011 0.003	-0.025 0.003	-0.054 0.004	-0.076 0.004
Number of Observations	53445	52020	49151	46930
R ²	0.0018	0.002	0.0027	0.0028

Panel B.

OLS regression of the difference between individual analyst recommendations and average analysts recommendations ("consensus") over the past month on recommendation type and affiliation (dummies). The sample is limited to stocks with recent issuances, for which past affiliation is possible, that is stocks with an IPO in the past 5 years, SEO in the past 2 years or bond issuance in the past 1 year. The sample period is 10/29/1993 to 12/31/2002. Standard errors in parentheses.

	Difference to one-month consensus	
	(SE)	(SE)
(Strong Sell, Sell, Hold)	-0.386 (0.003)	-0.385 (0.003)
(Buy)	0.059 (0.004)	0.058 (0.004)
(Strong Buy)	0.474 (0.004)	0.476 (0.004)
(Strong Sell, Sell, Hold)*(Any Affiliation)	0.114 (0.010)	
(Strong Sell, Sell, Hold)*(IPO Affiliation)		0.163 (0.028)
(Strong Sell, Sell, Hold)*(SEO Affiliation)		0.145 (0.028)
(Strong Sell, Sell, Hold)*(Co-Affiliation)		0.129 (0.014)
(Buy)*(Any Affiliation)	-0.048 (0.009)	
(Buy)*(IPO Affiliation)		-0.061 (0.023)
(Buy)*(SEO Affiliation)		-0.014 (0.022)
(Buy)*(Co-Affiliation)		-0.073 (0.012)
(Strong Buy)*(Any Affiliation)	-0.097 (0.010)	
(Strong Buy)*(IPO Affiliation)		-0.164 (0.024)
(Strong Buy)*(SEO Affiliation)		-0.104 (0.023)
(Strong Buy)*(Co-Affiliation)		-0.130 (0.013)
Number of Observations	53,445	53,445
R ²	0.3489	0.3502

TABLE VIII. Comparison to Consensus of Annual Earnings

Forecasts

Optimism is defined as forecast value minus earnings forecast consensus. The difference is normalized either by the share price on the date of the earnings forecast, or by the absolute value of the consensus. "Div P" indicates a variable normalized by share price, "Div |Cons|" indicates a variable normalized by the absolute value of the earnings-per-share forecast consensus. For normalization by price, the sample is limited to forecasts on days on which the share price is at least \$5. For the normalization by the absolute value of the consensus, the sample is limited to forecasts for which the denominator is at least 0.1. For both, the sample is also limited to those stocks with recent issuances, for which past affiliation is possible, that is stocks with an IPO in the past 5 years, SEO in the past 2 years or bond issuance in the past 1 year. The estimated times to the next annual and quarterly earnings announcements are based on the dates of the

	Optimism	
	Div P	Div Cons
Type of Affiliation		
IPO lead-underwriter (past 5 yrs)	-0.0011 (0.0005)	-0.0190 (0.0119)
SEO lead-underwriter (past 2 yrs)	-0.0009 (0.0004)	-0.0350 (0.0095)
Co-underwriter	-0.0004 (0.0002)	-0.0116 (0.0047)
Future underwriter (next 1 yr.)	0.0015 (0.0008)	0.0763 (0.0194)
Bond underwriter (past 1 yr.)	0.0006 (0.0003)	0.0030 (0.0068)
Never Affiliated (to any firm)	0.0000 (0.0001)	-0.0017 (0.0015)
Expected time to annual earnings announcement [in thousandths]	0.0000 (0.0000)	0.0002 (0.0000)
Expected time to next quarterly announcement [in thousandths]	0.0000 (0.0000)	0.0000 (0.0000)
Constant	-0.0031 (0.0001)	-0.0693 (0.0018)
Number of Observations	192,132	191,607
R ²	0.0036	0.0039

TABLE IX. Comparison to Consensus of Quarterly Earnings**Forecasts**

Optimism is defined as forecast value minus earnings forecast consensus. The difference is normalized either by the share price on the date of the earnings forecast, or by the absolute value of the consensus. "Div P" indicates a variable normalized by share price, "Div |Cons|" indicates a variable normalized by the absolute value of the earnings-per-share forecast consensus. For normalization by price, the sample is limited to forecasts on days on which the share price is at least \$5. For the normalization by the absolute value of the consensus, the sample is limited to forecasts for which the denominator is at least 0.1. For both, the sample is also limited to those stocks with recent issuances, for which past affiliation is possible, that is stocks with an IPO in the past 5 years, SEO in the past 2 years or bond issuance in the past 1 year. The estimated times to the next annual and quarterly earnings announcements are based on the dates of the

	Optimism	
	Div P	Div Cons
Type of Affiliation		
IPO lead-underwriter (past 5 yrs)	-0.0001 (0.0002)	0.0038 (0.0087)
SEO lead-underwriter (past 2 yrs)	-0.0003 (0.0001)	-0.0105 (0.0059)
Co-underwriter	-0.0001 (0.0001)	-0.0066 (0.0032)
Future underwriter (next 1 yr.)	0.0005 (0.0002)	0.0239 (0.0125)
Bond underwriter (past 1 yr.)	0.0001 (0.0001)	0.0037 (0.0039)
Never Affiliated (to any firm)	0.0000 (0.0000)	-0.0021 (0.0010)
Estimated time to next quarterly announcement (Estimates in thousandths)	0.0000 (0.0000)	0.0004 (0.0000)
Constant	-0.0007 (0.0000)	-0.0404 (0.0010)
Number of Observations	171,534	156,618
R ²	0.0035	0.0048

TABLE X. Relationship Between Forecast Optimism and Recommendation Optimism, excluding period just prior and just after earnings announcements

The dependent variable is Forecast Optimism, defined as the difference between forecast and consensus forecast, divided by the stock price on the date of the earnings forecast. The sample is limited to earnings forecasts made within the last 15 to 70 days before the earnings announcement. The period just prior to the earnings announcement and just after the preceding announcement are excluded due to the possible confounding effects of strategic earnings forecast behavior. The sample is also limited to stocks for which affiliation is possible, for more homogenous samples across the two groups. Specifically, the sample is limited to forecasts made within 2 years after an seo, 5 years after an ipo or 1 year after a bond issuance. Recommendation Optimism is the difference between the analysts' outstanding recommendation for a given stock minus the current recommendation consensus (over the past month) at the time of the earnings forecast. Affiliation is a binary variable and equal to one if the analyst's brokerage house is affiliated with an investment bank with a past SEO- or IPO- (co- or lead-)underwriting relationship. The sample is limited to forecasts for which price is at le

Panel A. Annual Earnings Forecasts

	Whole Sample	Affiliated	Unaffiliated	Whole Sample
Recommendation Optimism	0.00011 (0.00010)	-0.00152 (0.00074)	0.00016 (0.00010)	0.00016 (0.00010)
Affiliation				-0.00008 (0.00061)
Affiliation*(Recommendation Optimism)				-0.00168 (0.00064)
Constant	-0.00257 (0.00010)	-0.00263 (0.00071)	-0.00255 (0.00010)	-0.00255 (0.00010)
Number of Observations	11793	340	11453	11793
R2	0.0001	0.0123	0.0002	0.0008

Panel B. Quarterly Earnings Forecasts

	Whole Sample	Affiliated	Unaffiliated	Whole Sample
Recommendation Optimism	0.00006 (0.00002)	-0.00019 (0.00019)	0.00007 (0.00002)	0.00007 (0.00002)
Affiliation				-0.00045 (0.00014)
Affiliation*(Recommendation Optimism)				-0.00026 (0.00015)
Constant	-0.00062 (0.00002)	-0.00106 (0.00018)	-0.00061 (0.00002)	-0.00061 (0.00002)
Number of Observations	48602	1356	47246	48602
R2	0.0001	0.0007	0.0002	0.0005

TABLE XI. Measures of Trade Reaction: Summary Statistics

Sample period is 10/29/1993 through 12/31/2002.

Panel A. Summary Statistics Daily Trading for Sample Firms

	Mean	Median	Std. Dev.	Min	Max
Number of small buy-initiated trades	48.97	15	92.65	0	2,996
Number of large buy-initiated trades	23.95	3	68.15	0	1,911
Number of small sell-initiated trades	42.65	15	79.54	0	2,453
Number of large sell-initiated trades	19.79	3	56.08	0	1,563
Total number of small buy/sell-initiated trades	91.62	31	169.47	0	3,506
Total number of large buy/sell-initiated trades	43.74	7	123.35	0	3,339
$\Delta(\text{buy-sell})$ initiated small trades	6.32	1	33.20	-1,795	2,545
$\Delta(\text{buy-sell})$ initiated large trades	4.15	0	19.12	-660	791
Dollar value small buy-initiated trades	383,436	115,206	749,375	0	12,300,000
Dollar value large buy-initiated trades	5,893,682	443,642	23,200,000	0	4,860,000,000
Dollar value small sell-initiated trades	334,827	113,063	641,777	0	16,000,000
Dollar value large sell-initiated trades	4,869,562	396,150	18,700,000	0	3,120,000,000
Dollar value total small buy/sell-initiated trades	718,263	234,400	1,371,392	0	24,400,000
Dollar value total large buy/sell-initiated trades	10,800,000	957,429	41,000,000	0	5,510,000,000
Dollar value of (buy-sell) small trades	48,609	4,775	257,223	-9,344,925	8,854,894
Dollar value of (buy-sell) large trades	1,024,120	0	9,794,781	-1,430,000,000	4,860,000,000
<i>N</i>	3,636,212				

Panel B. Summary Statistics Daily Trading for Sample Firms, on Recommendation Event Dates

	Mean	Median	Std. Dev.	Min	Max
Number of small buy-initiated trades	110.43	44	154.48	0	1,545
Number of large buy-initiated trades	70.00	21	128.36	0	1,671
Number of small sell-initiated trades	93.77	39	133.45	0	2,297
Number of large sell-initiated trades	57.71	18	106.77	0	1,334
Total number of small buy/sell-initiated trades	204.20	85	283.42	0	3,449
Total number of large buy/sell-initiated trades	127.71	39	233.28	0	2,931
$\Delta(\text{buy-sell})$ initiated small trades	16.65	4	54.95	-1,145	770
$\Delta(\text{buy-sell})$ initiated large trades	12.29	2	36.47	-449	588
Dollar value small buy-initiated trades	897,945	364,625	1,246,380	0	11,300,000
Dollar value large buy-initiated trades	20,100,000	3,898,469	56,500,000	0	2,390,000,000
Dollar value small sell-initiated trades	765,132	332,250	1,069,632	0	15,000,000
Dollar value large sell-initiated trades	17,200,000	3,311,196	57,300,000	0	3,120,000,000
Dollar value total small buy/sell-initiated trades	1,663,077	711,550	2,279,749	0	22,300,000
Dollar value total large buy/sell-initiated trades	37,300,000	7,532,875	112,000,000	0	5,510,000,000
Dollar value of (buy-sell) small trades	132,813	33,188	444,851	-7,753,500	5,752,538
Dollar value of (buy-sell) large trades	2,960,799	224,388	22,800,000	-1,200,000,000	1,570,000,000
<i>N</i>	121,117				

TABLE XI. Measures of Trade Reaction: Summary Statistics*(continued)*

Panel C. Summary Statistics Daily Trading for Sample Firms, on Earnings Forecast Event Dates

	Mean	Median	Std. Dev.	Min	Max
Number of small buy-initiated trades	102.36	42	143.97	0	1,861
Number of large buy-initiated trades	70.40	21	128.49	0	1,911
Number of small sell-initiated trades	85.60	37	122.58	0	2,297
Number of large sell-initiated trades	57.38	18	105.16	0	1,563
Total number of small buy/sell-initiated trades	187.96	81	262.23	0	3,449
Total number of large buy/sell-initiated trades	127.78	40	231.91	0	3,339
$\Delta(\text{buy-sell})$ initiated small trades	16.76	4	52.38	-1,433	1,155
$\Delta(\text{buy-sell})$ initiated large trades	13.02	2	36.82	-306	604
Dollar value small buy-initiated trades	847,789	353,975	1,178,798	0	12,300,000
Dollar value large buy-initiated trades	19,900,000	4,004,181	52,900,000	0	2,390,000,000
Dollar value small sell-initiated trades	710,936	317,775	993,142	0	15,000,000
Dollar value large sell-initiated trades	16,500,000	3,393,688	49,200,000	0	3,120,000,000
Dollar value total small buy/sell-initiated trades	1,558,725	680,850	2,138,145	0	22,300,000
Dollar value total large buy/sell-initiated trades	36,400,000	7,761,269	99,900,000	0	5,510,000,000
Dollar value of (buy-sell) small trades	136,853	34,938	424,418	-7,753,500	8,854,894
Dollar value of (buy-sell) large trades	3,348,988	237,084	21,000,000	-1,200,000,000	1,570,000,000
<i>N</i>	491,008				

TABLE XII. Trade Reaction: Regression Results**Panel A.**

OLS regressions of normalized trade imbalance over event days 0 and 1 on dummies for recommendation level (Strong Sell, Sell, Hold, Buy, Strong Buy) and affiliation. Sample period is 2/1994 through 7/2001. Standard errors in parentheses.

	Large Trade	Small Trade	Difference S-L
Strong Sell	-0.103 (0.039)	-0.105 (0.045)	-0.002 (0.059)
Sell	-0.118 (0.033)	-0.139 (0.038)	-0.021 (0.051)
Hold	-0.091 (0.008)	0.007 (0.009)	0.098 (0.013)
Buy	0.011 (0.008)	0.134 (0.010)	0.123 (0.013)
Strong Buy	0.112 (0.010)	0.243 (0.011)	0.131 (0.015)
(Strong Sell)*Affiliation	-0.195 (0.273)	-0.838 (0.317)	-0.642 (0.419)
(Sell)*Affiliation	0.094 (0.247)	-0.087 (0.287)	-0.180 (0.378)
(Hold)*Affiliation	-0.001 (0.045)	0.005 (0.052)	0.006 (0.069)
(Buy)*Affiliation	-0.068 (0.034)	0.013 (0.040)	0.081 (0.052)
(Strong Buy)*Affiliation	-0.129 (0.036)	-0.023 (0.042)	0.106 (0.056)
Sample size	86,962	86,962	
R ²	0.0034	0.0085	

Panel B.

Trading reaction is measured by abnormal trade imbalance. Large traders represent trades of at least \$50,000, while small traders represent trades of less than \$20,000. Recommendation Update is the difference between the given recommendation level (1 for strong sell, 2 for sell, 3 for hold, 4 for buy and 5 for strong buy) and the prior recommendation by the same analyst for the same firm. Sample period 10/29/93-12/31/02. Standard errors in parentheses.

Panel A. Annual Earnings Forecasts

		Unaffiliated Forecasts	Affiliated Forecasts	Difference
Large Traders	Recommendation Update	0.0493 (0.0028)	0.0408 (0.0138)	-0.0084 (0.0141)
	Constant	0.0112 (0.0035)	0.0212 (0.0156)	0.0101 (0.0160)
	<i>N</i>	72,255	3,643	
	<i>R</i> ²	0.0042	0.0024	
		Unaffiliated Forecasts	Affiliated Forecasts	Difference
Small Traders	Recommendation Update	0.0439 (0.0030)	0.0725 (0.0146)	0.0287 (0.0149)
	Constant	0.0494 (0.0037)	0.0794 (0.0165)	0.0300 (0.0169)
	<i>N</i>	72,255	3,643	
	<i>R</i> ²	0.0029	0.0067	

Table XIII. Trading Reactions to Earnings Forecasts.

Trading reaction is measured by abnormal trade imbalance. Large traders represent trades of at least \$50,000, while small traders represent trades of less than \$20,000. Earnings forecasts are reported in dollar earnings-per-share. Forecast Update is the difference between the given prediction and the prior prediction by the same analyst for the same firm and fiscal period. Sample period 10/29/93-12/31/02. Standard errors in parentheses.

Panel A. Annual Earnings Forecasts

		Unaffiliated Forecasts	Affiliated Forecasts	Difference
Large Traders	Forecast Update	0.0015 (0.0008)	0.0967 (0.0505)	0.0952 (0.0523)
	Constant	0.0061 (0.0019)	-0.0012 (0.0144)	-0.0074 (0.0150)
	<i>N</i>	253,746	4,157	
	<i>R</i> ²	0.0000	0.0009	

		Unaffiliated Forecasts	Affiliated Forecasts	Difference
Small Traders	Forecast Update	-0.0004 (0.0008)	-0.0605 (0.0534)	-0.0602 (0.0546)
	Constant	0.0726 (0.0020)	0.1007 (0.0152)	0.0281 (0.0157)
	<i>N</i>	253,746	4,157	
	<i>R</i> ²	0.0000	0.0003	

Panel B. Quarterly Earnings Forecasts

		Unaffiliated Forecasts	Affiliated Forecasts	Difference
Large Traders	Forecast Update	0.0886 (0.0155)	0.0903 (0.1132)	0.0017 (0.1142)
	Constant	0.0005 (0.0026)	-0.0400 (0.0218)	-0.0404 (0.0220)
	<i>N</i>	141,227	1,874	
	<i>R</i> ²	0.0002	0.0003	

Small Traders	Forecast Update	-0.0508 (0.0160)	-0.0516 (0.1153)	-0.0007 (0.1164)
	Constant	0.0602 (0.0027)	0.0753 (0.0222)	0.0152 (0.0224)
	<i>N</i>	141,227	1,874	
	<i>R</i> ²	0.0001	0.0001	

Tina Davies Walden Ridge

		Gallons	
~~December~~	December 2007	26,447,700	÷ 7.48
	January 2008	33,581,100	
		27,790,459	
		26,926,600	
		\$ 32,750	÷ 1.69/1000
		33,750	
April		45,000	
May		45,000	
June		45,000	
July		45,000	
August		45,000	

2856 customers

\$ 120 customers

\$ 475,000

490,000,000

7.48

3,625,000

Rosa Gandy

Catoosa Utility District

273,150 gallons

19,000 customers

Jerry Lee - 423-894-8454

1,000 customers annual growth

Fort Oglethorpe

Nike Housely → ext 1302

1.2 M gallons day

.9 M gallons day

Terry Buckner@state.tx.us

William Sanders → Signal Mountain

From: <mhousley@fortogov.com>
To: <Terry.Buckner@State.Tn.US>
Date: 4/18/2008 8:29:33 AM
Subject: Monthly water purchased Tenn.American Water

Month	MG
1/1/2006	31.17
2/1/2006	26.91
3/1/2006	30.14
4/1/2006	27.53
5/1/2006	26.35
6/1/2006	31.19
7/1/2006	32.28
8/1/2006	34.08
9/1/2006	35.71
10/1/2006	30
11/1/2006	29.31
12/1/2006	27.88
1/1/2007	33.08
2/1/2007	28.25
3/1/2007	27.54
4/1/2007	28.62
5/1/2007	29.3
6/1/2007	35.99
7/1/2007	31.86
8/1/2007	32.94
9/1/2007	34.79
10/1/2007	29.34
11/1/2007	26.98
12/1/2007	28.76

**FERC Conference on
State of the Natural Gas Industry – Storage
October 21, 2004**

**Comments of
Tim Oaks
UGI Utilities Inc
Manager – Federal Regulatory Affairs
On Behalf of
The American Gas Association**

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

◆ Topics:

✓ LDCs use of storage.

✓ Uncommitted Capacity

✓ Market Based Rates

**FERC Conference on
State of the Natural Gas Industry – Storage
October 21, 2004**

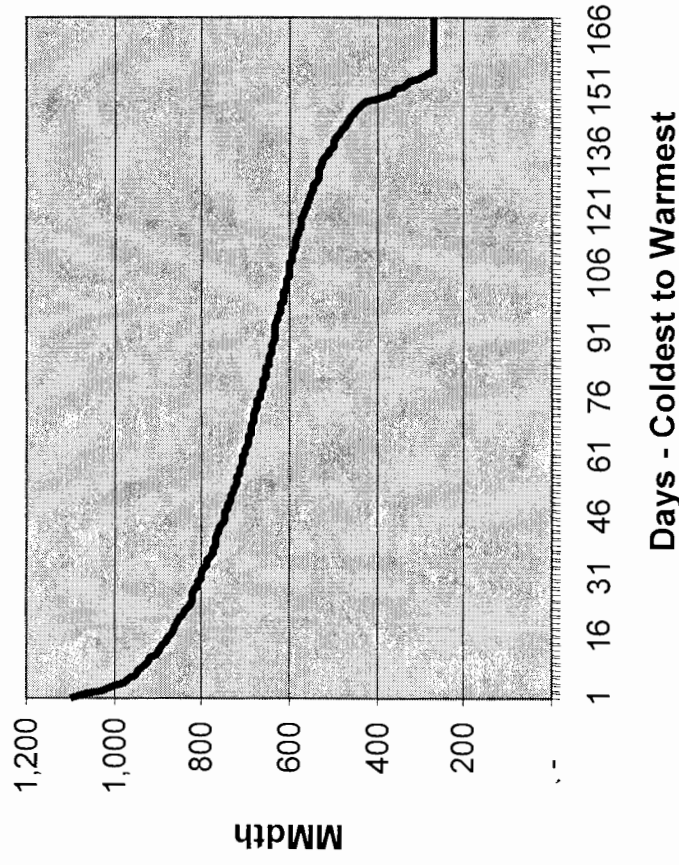
- ◆ LDCs use of storage.
- ◆ LDCs hold the majority of storage contracts
- ◆ LDCs utilize storage as a tool for meeting their retail obligations

**FERC Conference on
State of the Natural Gas Industry – Storage
October 21, 2004**

- ◆ Storage is acquired to ensure LDCs can reliably serve our peak, firm markets.
- ✓ Cannot be over emphasized
- ✓ LDCs use storage for other reasons, like price hedging, this is a fortunate consequence of operations of storage, but NOT the driving force in planning.

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

Load Duration - Demand Only



➤ Typical Load Duration

➤ From a Demand Standpoint

➤ Winter

➤ Summer

➤ Storage Injections

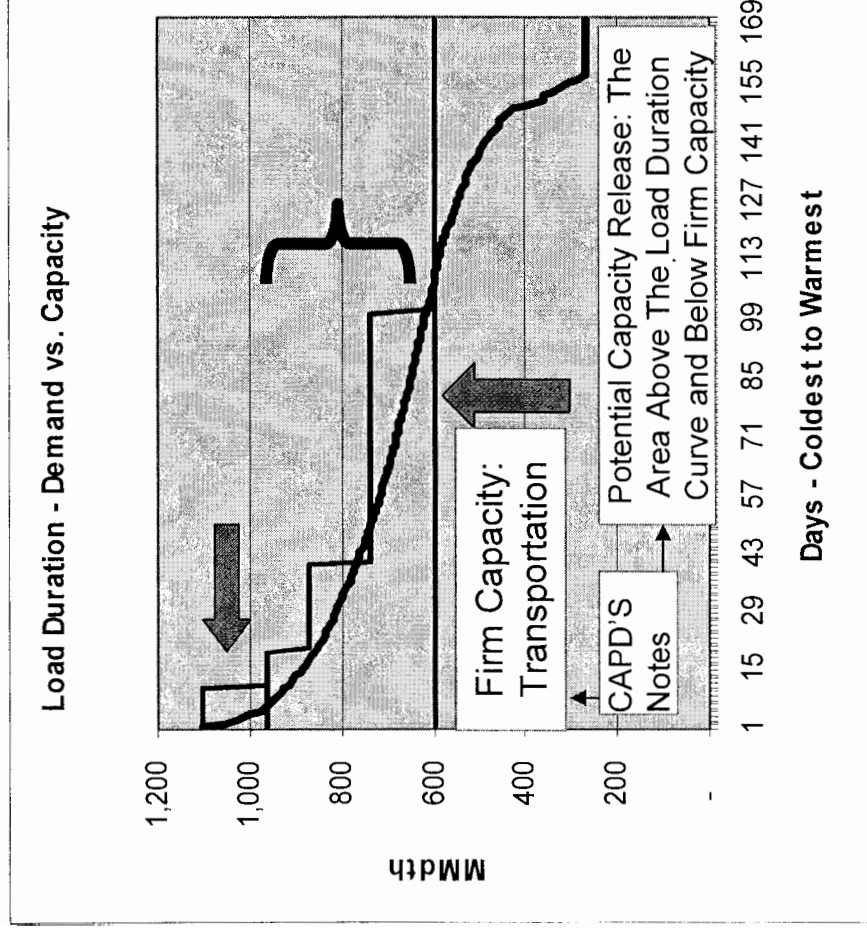
- Increase Summer Needs

➤ Optimize the Portfolio of Capacity Services

FERC Conference on State of the Natural Gas Industry – Storage

October 21, 2004

- **Adds Supply/Capacity to the Load Duration**
 - Broken into three Parts
 - Flowing Gas (FT)
 - Storage Withdrawals
 - Peak Shaving
- **Minimize Fixed Costs & Optimize Assets**

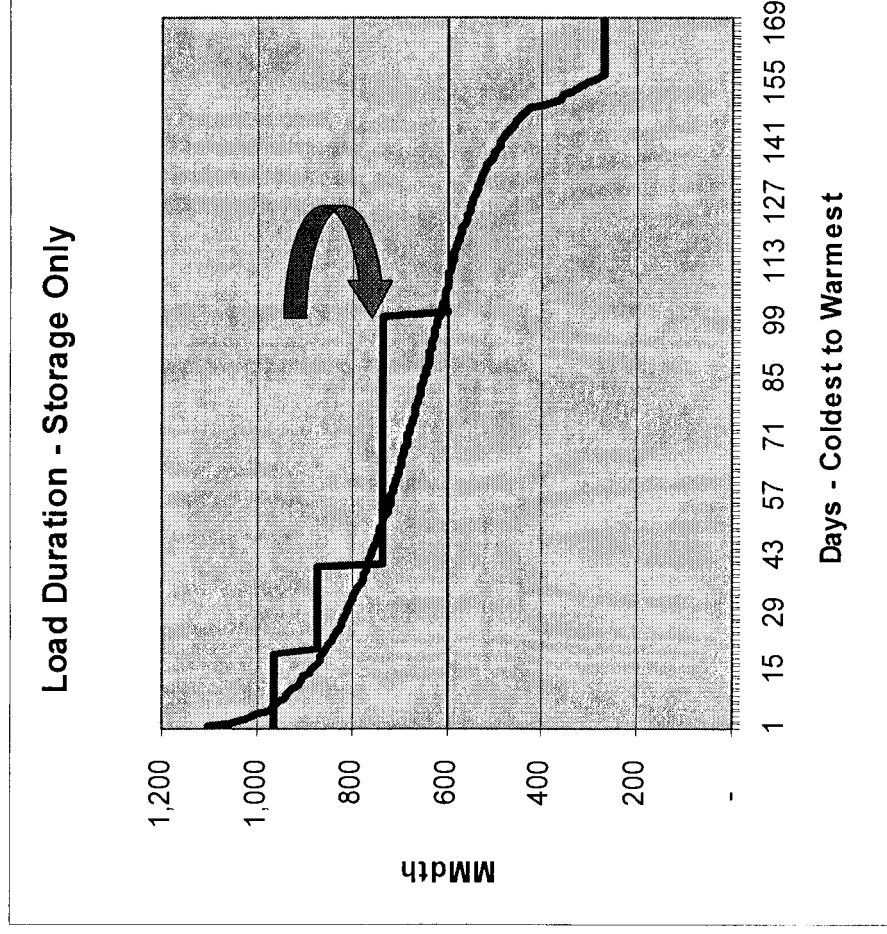


FERC Conference on State of the Natural Gas Industry – Storage

October 21, 2004

Storage

- Multiple Options – Days of Service
 - Near Peak (20 days or less)
 - Intermediate (25 to 70 days)
 - Seasonal (75 to 150 days)
 - Number of Turns
- Optimization of Contract Profile
 - Least Cost Capacity Mix
 - State Regulatory Scrutiny

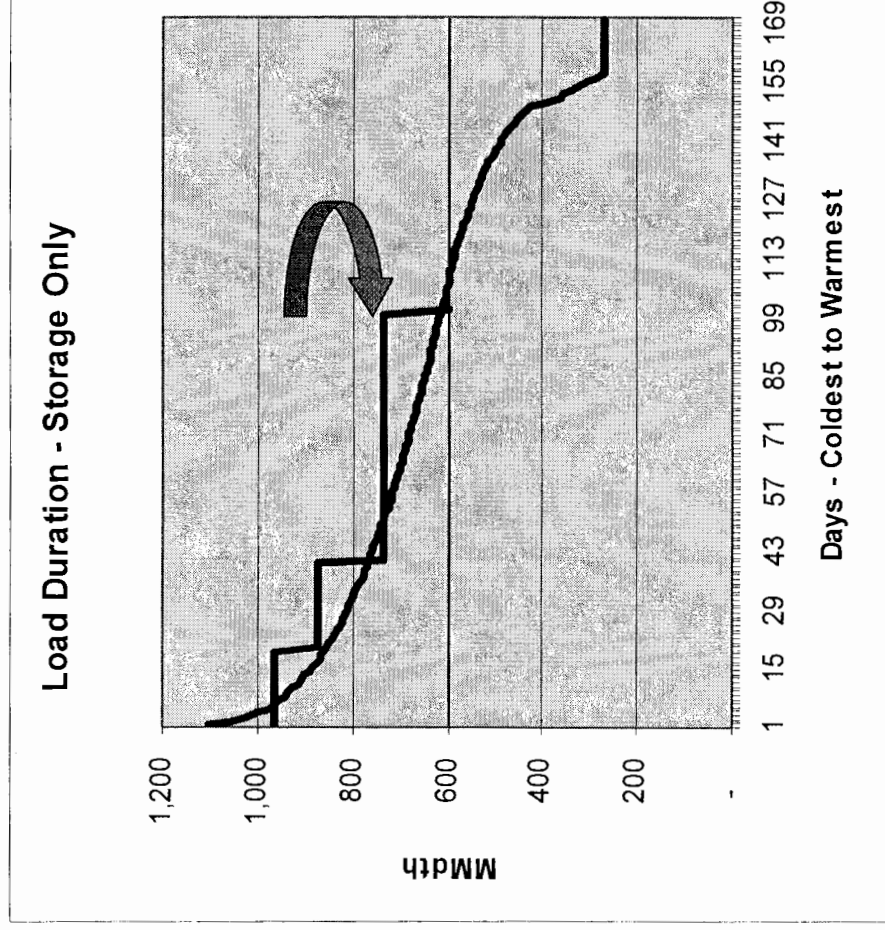


FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

Storage

➤ Seasonal Pricing issues

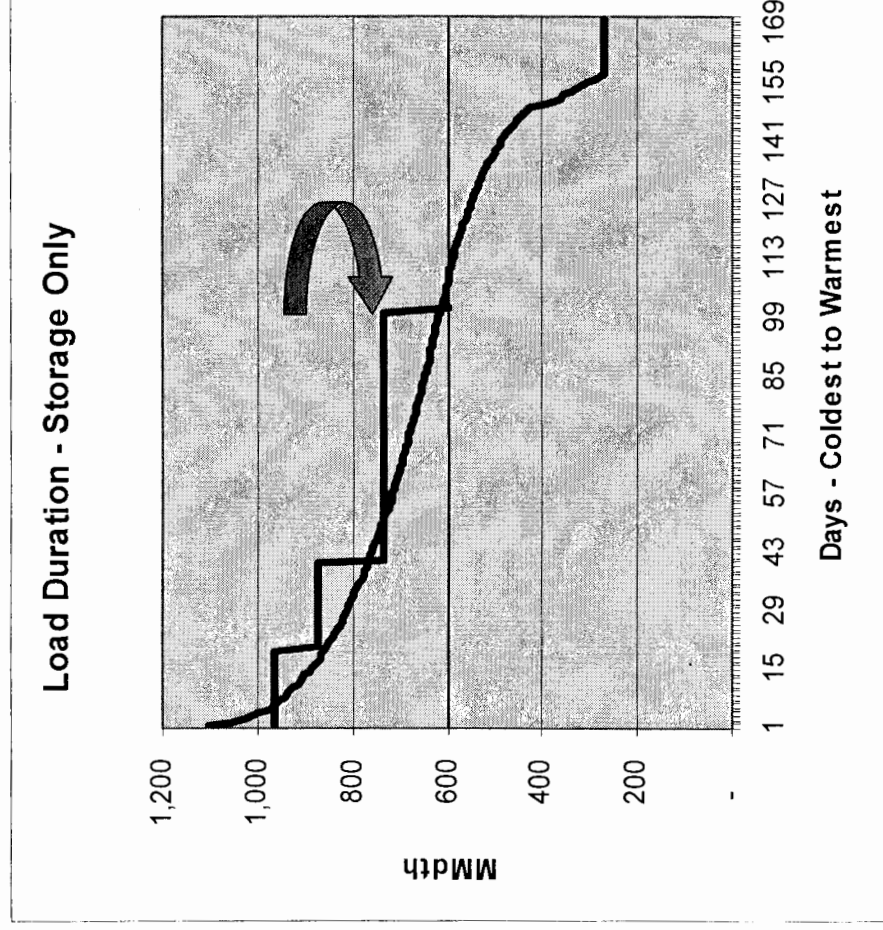
- Summer/Winter price Difference Physical Hedge
- Summer Fill for LDC vs. Price Plays for Marketers
- The Affect of Summer Electric Generation.
- Seasonal Price Differential has shrunk in recent years



FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

Storage

- Obligation to Serve Drives Planning
- LDCs at or near Full Inventory in November
 - Different from marketers – less price plays
- Market area versus Production area
 - Market area services generally Summer injection, Winter withdrawal (i.e. 1 turn)
 - Production area services have the ability to quickly refill and withdraw (i.e. multiple turns all year round)



FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

◆ Uncommitted reserves for storage and FT

- ✓ Supply and demand would suggest this could help reduce volatility in prices.
- ✓ Capacity constraints are only half of this equation
- ✓ Other half of the equation is the availability of the commodity itself
- ✓ As long as supply remains tight, volatility will remain



American Gas Association



FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ **Some Immediate Concerns with
Uncommitted Capacity Reserves:**
 - ✓ **Cost allocation - bottom line, who pays?**
 - ✓ **What is the appropriate level?**
 - ✓ **Is it different for each pipeline?**
 - ✓ **Does the pipeline earn a fair return on the
uncommitted capacity?**
 - ✓ **How is the construction certificated and
financed?**

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ **Uncommitted Capacity - A second issue: the nature of the demand pressure placed on capacity?**
 - ✓ **LDCs focus on its core responsibility – the obligation for reliable service to its firm customers**
 - ✓ **LDCs design and contract for a portfolio to meet those needs**
 - **LDC peak loads are not a surprise**
 - **Demand pressure is coming from interruptible load (electric & industrial)**

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ **Market Distortions?**
 - ✓ Interruptible shippers have made the economic decision to shun firm capacity
 - ✓ Sending wrong market signals if they are increasing demands in cold weather
 - ✓ Commoditize the capacity market, while LDCs pay the fixed costs
 - ✓ Added interruptible capacity would only exacerbate reliance on inappropriate services to meet peak loads

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ LDCs will stand firmly against subsidizing the excess, interruptible capacity in the form of reserve capacity
- ◆ If a reserve margin develops through market forces, that is another matter because then the market will be signaling its willingness to pay

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ Third Issue - LDCs are concerned about the effect the extra capacity will have on the capacity release market
 - ✓ Order 636 - the capacity release was tied to the recognition that firm customers needed a means to mitigate fixed costs
 - ✓ Additional unused capacity, available virtually 100% of the time, will significantly reduce the value of released capacity
 - ✓ Reconsideration of the Order No. 636 regulatory pact

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ Finally - the idea of market based rates for storage
 - ✓ Projects have been delayed or cancelled
 - ✓ Staff report - current storage levels are about sufficient
 - ✓ LDCs are signaling a willingness to buy more storage services where the economics support it
 - ✓ If the economics do not make sense, either the buyers are not interested or the promoters of the project will either cancel or delay them

FERC Conference on State of the Natural Gas Industry – Storage October 21, 2004

- ◆ AGA supports the staff proposal to relax or broaden the market based rate test
 - ✓ See if it spurs more storage development
 - ✓ In a fair market, if a party is interested in the project it will make a rational decision on what rate it will pay
 - ✓ Critical for consumer protection are the staff's provisions that discuss ensuring that all market risks lie with the project's owners and that there are no captive customers of the project

This is America™

Free Checking

from

Bank of America

Special online-only offer

Bank of America

Bank of America

Chattanooga

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:

AL AK AZ AR CA CO CT

KY LA ME MD MA MI MN

ND OH OK OR PA RI SC

classmates.com

HOME

NEWS

SPORTS

ENTERTAINMENT

MULTIMEDIA

BLOGS

PHOTOS

JOBS

HOMES

Home » News » Local/Regional News
Wednesday, July 30, 2008 , 9:48 a.m.

Chattanooga: Group makes waves over water rate hike



By: Dave Flessner

(Contact)

ARTICLE TOOLS

E-mail story

Comments

Printer friendly version

iPod friendly version

Share and Enjoy

Text Size: A A A A

A coalition of local government and business leaders brought their fight against a proposed rate increase by Tennessee-American Water Co. to the utility's source on Tuesday.

Standing on the north shore of the Tennessee River that supplies Chattanooga's water, Mayor Ron Littlefield described the utility's request to raise water rates for the second year in a row as "excessive." For consumers already struggling with higher energy costs, the increase is "something we cannot accept," he said.

Chattanooga and Hamilton County governments are joining with members of the Chattanooga Manufacturers Association and other citizens in a new group called "Fight the Hike."

Tennessee-American was granted a 12.3 percent increase last year, and the company is asking the Tennessee Regulatory Authority to boost rates another 20.58 percent this year.

The Tennessee Regulatory Authority is scheduled to decide in September how much, if any, of a rate increase to allow Tennessee-American to implement in October.

John Watson, general manager for Tennessee-American, said the higher rates are needed to keep pace with soaring energy and chemical costs to pump and treat water from the river.

Even if the Tennessee Regulatory Authority approves all of the request, "water will still be the cheapest utility" with monthly costs under \$20 for most Chattanooga households, Mr. Watson said.

"This rate increase would cost the average customer only 12 cents a day," he said. "That's far less than the increases we have seen in other utilities in recent years."

But utility critics said such comparisons are unfair,

Article: Chattanooga: Group makes waves over water rate hike

PDF: Re: Filing

PDF: Supplemental Response and Objections

Article: City, state want water rates set 'correctly,' not quickly

PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

Article: Tennessee Regulatory Authority limited in scope of power

Article: State, city won't use disputed consultant in Tennessee-American rate case

Article: Resume in water company case removed from Web

SH

BLOCKBU

TOTALAC

Over 80,000 TH



F

Looking for trave



Signa Moun

\$274, 3 Bed

Click more

Chattanooga

Times Free Pr



Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.

del.icio.us

digg

Furl

Spurl

Yahoo MyWeb

co.mments

Ma.gnolia

De.li.rio.us

blogmarks

BlinkList

NewsVine

scuttle

Fark

Shadows

Subscribe Here!

How to avoid heat stroke

HOME | NEWS | SPORTS | ENTERTAINMENT | MULTIMEDIA | BLOGS | PHOTOS

COMMUNITY | FYI

Search:

Site | Archives | Web

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Infomation | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics
 Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets &
 Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
 This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King
of Your Castle

BUILD YOUR
OWN CASTLE

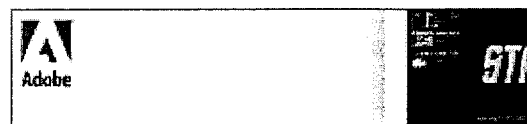
↑ DRAG HERE ↑

Refinance
\$400,000 for
\$300,000 for
\$200,000 for

*Terms and

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press



[HOME](#) [NEWS](#) [SPORTS](#) [ENTERTAINMENT](#) [MULTIMEDIA](#) [BLOGS](#) [PHOTOS](#) [JOBS](#) [HOME](#)

[Home »](#)

Tuesday, July 29, 2008 , 12:01 p.m.

Chattanooga: Coalition to fight water rate increase



By: Dave Flessner
(Contact)

Local government and business leaders announced today they are forming a coalition to “Fight the Hike” in water rates proposed by the Tennessee-American Water Co.

The city of Chattanooga and Hamilton County governments along with members of the Chattanooga Manufacturers Association will fund the campaign urging state regulators to cut the 20.4 percent increase in water rates requested by the utility.

Mayor Ron Littlefield called the latest rate request by Tennessee-American “excessive” following another double-digit rate increase last year.

Chattanooga businessman Randy Baker, chair of the “Fight the Hike” campaign, said if the latest rate increase is adopted water costs will have jumped by 35.1 percent in just over a year.

“How can Tennessee-American justify an increase of this magnitude when the average family is struggling to scrape together money to keep gas in their car, food on their table and mortgage payments current?” Mr. Baker asked during a news conference on the banks of the Tennessee River.

But John Watson, general manager for Tennessee-American, said those rising costs for electricity, natural gas and commodities are also pushing up costs for Tennessee-American to treat and pump water throughout Chattanooga.

The proposed increase, even if fully adopted by the Tennessee Regulatory Authority, would still cost the typical Chattanooga household only \$3.65 more a month, Mr. Watson said. That will still leave the cost of a gallon of water under a penny, he said.

[Read more in tomorrow's Times Free Press](#)



Staff Photo by Meghan Brown

Chattanooga mayor Ron Littlefield, left, speaks today at a press conference to fight the water rate hike from Tennessee American Water Company. Also pictured is Randy Baker, the chair of the Fight the Hike campaign, at right, during the media event held at Coolidge Park.

ARTICLE TOOLS

- E-mail story
- Comments
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

SHOP

BLOCKBUSTER TOTALAC

Over 80,000 Titles

F
Looking for gut
V

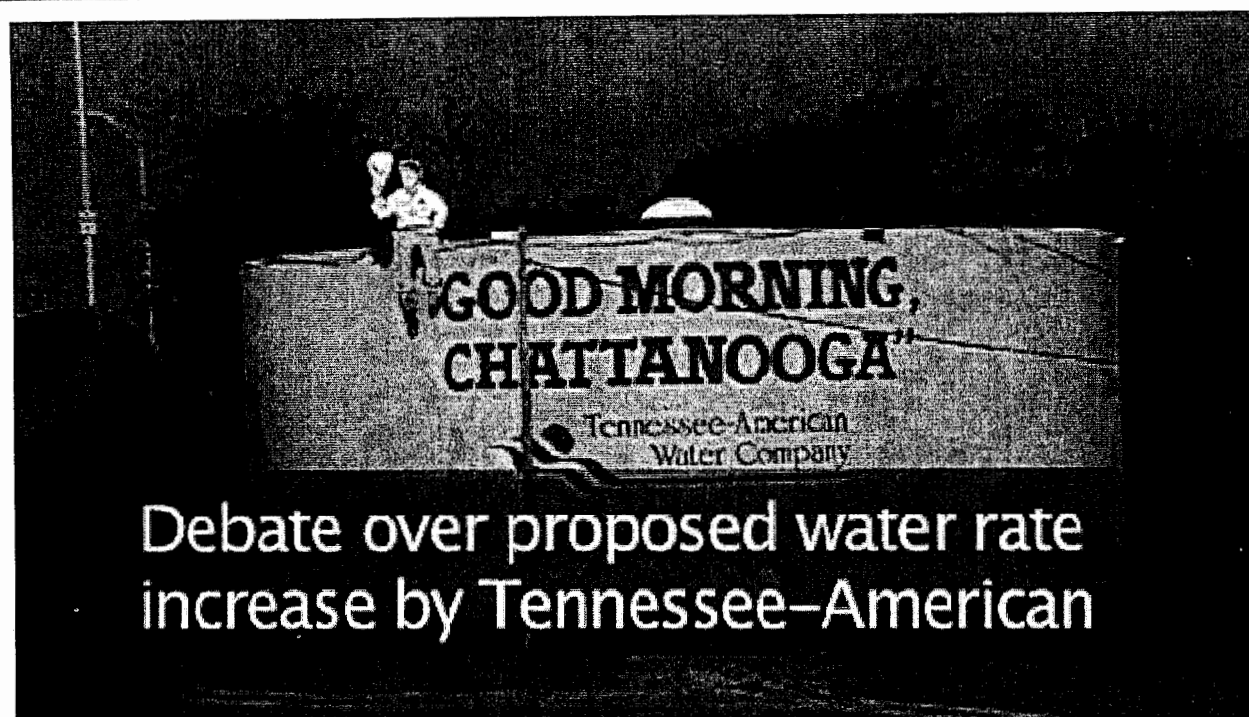
homes TOPIC

Featured Property

Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga Times Free Press

jobs TOPIC



Debate over proposed water rate increase by Tennessee-American



Debate over proposed water rate increase by Tennessee-American

PERSONAL ASSISTANT W
Chattanooga, TN
HIXSON, JANICE

Scenic Industri
L
Chattanooga, TN
SCENIC INDUSTRI

C Come join ou
team
Chattanooga, TN
LIFETOUCH
NATIONAL SCHC

[More jobs](#)

DIRECTOR
BRIDAL | TRA

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

Search: |



☒ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | A | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)



FREE Checking*



We really mean it.

[Open An Account](#)

Bank of America
 Bank of America

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com

Chattanooga Times Free Press




SEE YOUR ACCOUNT
 ALL IN ONE PLACE
ONLINE

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOME](#)
[Home](#) » [News](#) » [Local/Regional News](#)

Tuesday, July 29, 2008, 12:01 a.m.

Tennessee-American rate hearing set Aug. 18 in Chattanooga



By: Andy Sher
(Contact)

NASHVILLE — Tennessee-American Water Co. officials agreed Monday to delay implementing any of their proposed 20.58 percent rate increase until Oct. 1 so that state officials adequately can hear and consider the case.

The move came as a result of a request by Tennessee Regulatory Authority directors, who also on Monday set the rate proceeding to be heard in Chattanooga from Aug. 18 through Aug. 22.

"The directors asked us for the time to properly consider the merits of the case, and giving them this time is the right thing to do," Tennessee-American spokeswoman Kim Dalton later said.

Regulatory authority directors hope to decide the case by Sept. 22. But a provision in state law allows utilities to proceed temporarily with an increase if the TRA has not acted within six months of the rate petition.

In the Tennessee-American case that date would be Sept. 15. The increase, however, is subject to being fully or partially overturned and the money given back to ratepayers depending on how TRA directors ultimately rule.

The issue came up during TRA directors' regular meeting in Nashville on Monday. Directors agreed to start the hotly contested rate case, which has drawn fierce opposition from the state, city of Chattanooga and Chattanooga Manufacturers Association, on Aug. 18 and hold the proceedings in the Scenic City.

"I believe that holding the hearing in Chattanooga will provide the maximum opportunity for public participation," said TRA Director Eddie Roberson, who is from Chattanooga.

The proceedings will include a public period for ordinary Chattanooga ratepayers to comment on the increase, which Tennessee-American argues is justified in terms of higher operating costs and the

ARTICLE TOOLS

-  E-mail story
-  Comments
-  Printer friendly version
-  iPod friendly version
-  Share and Enjoy
-  Text Size: A A A A




© 2008 MaxTag

Article: Chattanooga: Group makes waves over water rate hike

PDF: Re: Filing

PDF: Supplemental Response and Objections

Article: City, state want water rates set 'correctly,' not quickly

PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

Article: Tennessee Regulatory Authority limited in scope of power

Article: State, city won't use disputed consultant in Tennessee-American rate case

Article: Resume in water company case removed from Web

Article: Water rate hike won't immediately triple

F

Want a

Visit Aest



Featured Property



Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga
Times Free Pr



need to make ongoing infrastructure improvements.

The \$7.6 million rate increase, which would average about \$3.65 a month for an average residential user, comes on top of a 12.3 percent increase approved by the TRA last year. The state's consumer advocate argues Chattanoogaans actually deserve a \$1.6 million cut in the company's existing rates.

Among other things, the company in its filings seeks an 11.75 percent return on equity.

But complications arose over whether both sides should present post-hearing arguments in the form of oral arguments or be allowed to present written briefs through Aug. 29.

State Consumer Advocate Tim Phillips, assistant city of Chattanooga attorney Mike McMahan and manufacturers association attorney Henry Walker all expressed a preference to submit written briefs and asked for a week to do so.

As officials begin discussing the six-month deadline and how to shoehorn in post-hearing petitions, the TRA staff's need to examine the case and TRA directors eventual ruling, TRA Chairman Tre' Hargett sought reassurances from the utility it would not unilaterally implement a rate increase.

"I want us to do this correctly and not quickly. I'd like for those to happen together," Mr. Hargett said. "If we need an extra week to make that happen, let's by all means take a week."

Noting he would have to speak with Tennessee-American officials, the company's attorney, Dale Grime, said, "it is a matter of significance to us when the rates go into effect. Based on the case as we have filed it, we believe that it would cost us about a half million dollars a month for every month the rates don't go up ... we're talking about a two-week period there, we're talking about half of that roughly."

But after a recess in which he consulted with Tennessee-American President John Watson by phone, Mr. Grimes later told TRA directors that "in the spirit of continued cooperation, Tennessee-American in this case is willing to have the proposed time frame go into effect."

As a result, attorneys on all sides will have from Aug. 22 to Aug. 29 to prepare briefs. TRA directors would deliberate, and no rate increases would go into effect until Oct. 1.

In the meantime, a group of elected officials, civic leaders and businessmen appear ready to go on a public-relations offensive today with a 10 a.m. news conference at Coolidge Park where they are expected to denounce the rate increase.

"The ones (local people) that I've talked to are a little bit upset about it," said Randy Baker, a local real estate developer who is chairman of a citizen's group "fighting the hike."

"I think all we're going to ask for is some accountability," Mr. Baker said, noting that if the latest increase is granted, Tennessee-American's revenues will have soared 35 percent since early May 2007.

Tennessee-American's Ms. Dalton said officials "look forward to the hearings in Chattanooga for the chance to demonstrate that our \$3.65-per-month rate increase that we've asked for is reasonably based on the \$21 million investment that we've made into the system here, into the community."

LPNs 2nd shift
Chattanooga, TN
CARESTONE
ASSISTED LIVING

Driver- N
Chattanooga, TN
ADVERTISING

installer ADT
AUTHORITY
Chattanooga,
Tennessee SWS,

[More jobs](#)

DIRECTOR

BRIDAL | TRA

Comments

My comment is very simple....Don't be part of those that are deliberately crippling the tax payers. Stop this rate increase. The way that they figure their bill is totally wrong. I am an animal rescuer, and I have yet been able to teach my animals to urinate in the toilet; therefore, the water that they drink is NOT going into the sewer system. I have a small garden, and none of that water is going into the sewer system.

I have a beautiful yard, w/lots of flowers & trees, and none of the water is going into the sewer system. TAW company has found a way to make HUGH profits and cripple the little people, and if you allow them this increase, you are as guilty as they are at trying to destroy the taxpayers!!!!

0 of 0 people found this comment useful.

[Suggest removal](#)

By: Anonymous Name | Username: kmdavis56 | On: July 29, 2008 at 3:29 p.m.

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

[Preview comment](#)

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, [click here](#).

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



[Subscribe Here!](#)

How to avoid heat stroke

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



Site



Archives



Web

TimesFreePress.com: [Latest News](#) | [Local/Region](#) | [Obituaries](#) | [Columnists](#) | [Editorial Cartoons](#) | [Business](#) | [Politics](#) | [Health](#) | [News Projects](#) | [Web Exclusives](#) | [Preps Sp](#)
[Life / Entertainment](#) | [Baby Boomers](#) | [Local Video](#) | [Podcasts](#) | [Multimedia Projects](#) | [Blogs](#) | [Photo Gallery](#) | [Slideshows](#)

Community: [News](#) | [Correspondents](#)

Fyi: [Web Exclusives](#) | [Top Picks](#) | [Music](#) | [Movies](#) | [Dining](#) | [Arts](#) | [MediaBytes](#) | [Out&About](#) | [Today's Events](#) | [Event Search](#) | [Submit Events](#) | [Search FYI Articles](#) | [Search F](#)

Jobs: [Create an Account](#) | [Log in](#) | [Post a Resume](#) | [Search Jobs](#) | [Related Job Articles](#) | [I Love My Job](#) | [What are you Worth?](#) | [Cost-of-living Calculator](#) | [Job Assessor](#) | [M](#)
[Research Companies](#) | [Post Jobs Online](#) | [Post Jobs Online + Newspaper](#)

Cars: [Find a Vehicle](#) | [Sell Your Vehicle](#) | [Find a Dealer](#) | [Recreational Vehicles](#) | [Research & Resources](#) | [Car Review](#) | [Cruisin Articles](#) | [Readers' Rides Articles](#) | [View Car](#)

Homes: [Search for Sale](#) | [Search for Rent](#) | [Articles, Tools & Resources](#) | [School Information](#) | [Community Information](#) | [Homefinder](#) | [Agent Directory](#) | [Property Value Rese](#)

Shop: [Announcements](#) | [Apparel](#) | [Appliances](#) | [Automotive & Boating](#) | [Books & Magazines](#) | [Camera & Photo](#) | [Computers & Software](#) | [Coupons](#) | [Education](#) | [Electronics](#)
[Gifts](#) | [Food & Beverage](#) | [Furniture](#) | [Garage/Yard Sales](#) | [Health & Beauty](#) | [Home & Garden](#) | [Jewelry & Watches](#) | [Merchandise](#) | [Movies & Music](#) | [Office Produs](#) | [Pets &](#)
[Games & Video Games](#) | [Travel & Luggage](#) | [Advertiser List](#) | [Coupons](#) | [Ask the Experts](#) | [Find A Business](#)

Misc.: [Spotted](#) | [Search Articles](#) | [Search Archive](#) | [Full Access](#) | [Subscribe](#) | [Contact Us](#) | [Advertise](#) | [Promotions](#) | [Submit Events](#) | [Feedback](#) | [Place an Ad](#)

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King of Your Castle

BUILD YOUR OWN CASTLE

↑ DRAG HERE ↑

LendingTree
WHEN BANKS COMPLETELY FORGOT YOU

Refinance
\$400,000 for
\$300,000 for
\$200,000 for

*Terms and

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:

AL	AK	AZ	AR	CA	CO	CT
KY	LA	ME	MD	MA	MI	MN
ND	OH	OK	OR	PA	RI	SC

 classmates.com

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOW](#)

[Home »](#)

Monday, July 28, 2008 , 12:01 a.m.

Foes of water rate hike push for hearings in Chattanooga



By: Andy Sher
([Contact](#))

NASHVILLE — A state agency could decide today whether to make it easier for Chattanoogaans to weigh in on Tennessee-American Water Co.'s proposed 20.58 percent rate increase.

Tennessee Regulatory Authority directors, who likely will hear the rate case later this summer, are expected to discuss holding all or part of their hearings in Chattanooga as they did during Tennessee-American's rate request in 2007.

"They may make a decision," said Kelly Grams, an Authority attorney. "They will at least be discussing it."

The city of Chattanooga and Chattanooga Manufacturers Association, which have filed as intervenors in the rate case, oppose Tennessee-American's request this year, which follows a 10.3 percent increase granted to the investor-owned water utility last year.

The Hamilton County Commission on April 10 adopted a resolution opposing the increase and officially asked the regulatory authority to "hold public hearings within Hamilton County during its consideration."

Tennessee-American justifies the increase, which amounts to \$7.6 million annually, citing increased treatment, fuel and other costs as well as infrastructure needs. But the state's consumer advocate argues consumers deserve a \$1.6 million cut in the company's existing rates.

Rick Hitchcock, who is part of the city's legal team, said the city "would be very grateful" if the hearings were held in Chattanooga.

"We realize there are administrative burdens associated with that, but I think everybody would be appreciative to have at least part of the hearing in Chattanooga," he said.

Spokeswoman Kim Dalton said Tennessee-American has no objection to holding all or part of the hearing in Chattanooga.

"It's an open and transparent process," she said. "We'll be ready to present our case wherever the hearing is located."

In a rare move, regulatory authority directors last year held the hearing in Chattanooga, allowing ordinary citizens a chance to address officials about the increase.

ARTICLE TOOLS

- E-mail story
- Comments
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

SHOP BLOCKBU TOTALAC

Over 80,000 Titles

SAVAGES

Available on DVD

F

Looking for car
dental assisting,
visi

TOPHO

Featured Property



Signa
Moun
\$274,
3 Bed
Click
more

**Chattanooga
Times Free Press**

Among the three regulatory authority directors hearing the rate case is Eddie Roberson, formerly of Chattanooga.

Chattanooga Manufacturers Association President Ray Childers said he would like to make it easier for local consumers to have their say.

"We'd like to have it here," he said. "I think what's more likely to happen, they could have a public hearing here where they set aside half a day where they convene and hear comments from the public. That would be more realistic."

Both sides, meanwhile, continue to file requests for information from each other. One request filed Tuesday by Tennessee-American's law firm, Nashville-based Bass, Berry & Sims, dealt with Chattanooga's newest business, Volkswagen.

Volkswagen officials on July 15 announced they would locate the German automaker's U.S. assembly plant at the Enterprise South industrial park.

The Bass, Berry & Sims request asks for all documents, proposals or "other communications" in which city officials or their representatives communicated with Volkswagen or affiliated companies "concerning water use or wastewater requirements for the planned Volkswagen manufacturing facility in the Chattanooga area."

Volkswagen is not getting its water from Tennessee-American but from the Eastside Utility District, which operates its water filtration plant on the same former U.S. Army munitions plant site that the city and county used to carve out Enterprise South.

Mr. Hitchcock appeared puzzled as to why Tennessee-American would be asking questions about Volkswagen.

"I don't know," he said, but noted any response to the request would come through the regulatory authority process.

Tennessee-American's Ms. Dalton downplayed the request, noting the water company is "just gathering information. It's just regulatory process to gather the information related to any case."



**CUSTOMER
SERVICE Mon**
Chattanooga, TN
JOSTENS

**INSURANCE AG
Lead**
Chattanooga, TN
SENIOR LIFE
INSURANCE
COMPANY

**Crane America
Service**
Chattanooga, TN
CRANE AMERICA
SERVICES

[More jobs](#)

DIRECTOR

BRIDAL | TRA

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous

remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

Search: |



☒ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | A | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics | Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King
of Your Castle



LendingTree
WHEN BANKS COMPETE, YOU WIN

Refinance
\$400,000
\$300,000
\$200,000
*Terms an

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

**H&R BLOCK®**
You got people™
hrblock.com

The H&R Block Income Tax Course enlightens me about taxes
*Not an offer of employment

[HOME](#) [NEWS](#) [SPORTS](#) [ENTERTAINMENT](#) [MULTIMEDIA](#) [BLOGS](#) [PHOTOS](#) [JOBS](#) [HOME](#)

Home » News » Local/Regional News
Friday, July 18, 2008 , 12:00 a.m.

Tennessee: State seeks water rate cut



By: Andy Sher
(Contact)

NASHVILLE — State Attorney General Robert Cooper’s office said Monday that instead of hiking water rates by \$7.6 million, Tennessee-American Water Co. should slash its charges to Chattanooga customers by \$1.6 million.

In a filing with the Tennessee Regulatory Authority, the state’s Advocate and Protection Division said the water company “has overstated its need for more income in regulated revenue by more than \$9.2 million, which means that the water rates charged to TAWC (company) customers should actually be reduced by \$1.6 million.”

The filing represents the consumer advocate division’s first specific objections to Tennessee-American’s proposed 20.58 percent rate increase.

“The filing will have to speak for itself,” said Sharon Curtis-Flair, a spokeswoman for the attorney general’s office.

Tennessee-American spokeswoman Kim Dalton on Thursday evening downplayed the consumer advocate’s call for a rate reduction, noting that the office did so last year. TRA directors last year ignored the consumer advocate’s call for a rate reduction and approved a 12.3 percent increase.

“We believe the evidence submitted in this case will fully support the request we’ve made to the TRA, and this is really nothing unusual,” Ms. Dalton said in a voice mail message.

In asking for the increase, company officials have cited higher costs of water treatment and gasoline as well as critical infrastructure improvement needs. The increase would raise the average ratepayer’s bill by \$3.65 a month, officials have said.

The consumer advocate’s objections to the rate increase are on pages 6 and 7 of a 17-page response objecting to some of Tennessee-American’s discovery requests in the rate case. The state, joined by Chattanooga and the Chattanooga Manufacturers Association, officially has intervened in the rate case.

In the filing, Assistant Attorney General Ryan

ARTICLE TOOLS

 E-mail story

 Comments

 Printer friendly version

 iPod friendly version

 Share and Enjoy

 Text Size: A A A A

SHOP **BLOCKBU TOTALAC**

Over 80,000 TI



You have a
Visit Ric



Featured Propert



Signa
Moun
\$274,
3 Bed
Click
more

**Chattanooga
Times Free Pr**



McGehee outlines six reasons why state officials believe the requested increase is too much and that current rates should be cut.

For example, the state says one of its witnesses, economist Dr. Stephen N. Brown, will testify that the return on investment the water company wants for shareholders "is too high" and has the "effect of unreasonably inflating" the rate increase by \$3.7 million.

The company is seeking an 11.75 percent return on equity.

Tennessee-American, the state argues, is asking for \$9.2 million "more in customer rates than the company actually needs to meet its expenses and provide a fair return to its shareholders while providing quality water service to its customers."

Accompanying testimony from state witnesses was placed at least temporarily under seal due to a special protective order issued by Richard Collier, the regulatory agency's general counsel, acting on demands by Tennessee-American attorneys.

Directors from the regulatory authority are expected to hear the rate case later this summer.

**RESPIRATORY
THERAPIST
(RRT/CRT)**
Chattanooga, TN

Can You Dig It?
Chattanooga, TN
GATEHOUSE MEI
INC./ NAT

**OPTOMETRIC
TECH / AS**
Chattanooga, TN
KAPPERMAN AND
WHITE EYE

[More jobs](#)

DIRECTOR

BRIDAL | TRA

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, [click here](#).

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



[Subscribe Here!](#)[How to avoid heat stroke](#)[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)[COMMUNITY](#) | [FYI](#)Search: 

Site |



Archives |



Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp
Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search f

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | M
| Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

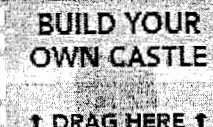
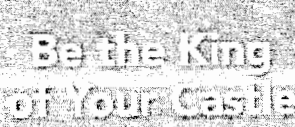
Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics
Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets &
Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

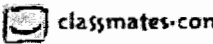
© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.



Refinance
\$400,000
\$300,000
\$200,000
*Terms an

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:


AL	AK	AZ	AR	CA	CO	CT
KY	LA	ME	MD	MA	MI	MIN
ND	OH	OK	OR	PA	RI	SC

HOME NEWS SPORTS ENTERTAINMENT MULTIMEDIA BLOGS PHOTOS JOBS HOM

Home » News » Local/Regional News
Sunday, April 27, 2008 , 12:00 a.m.

Chattanooga: Water rate hike won't immediately trickle down to municipalities



By: Matt Wilson
(Contact)

ARTICLE TOOLS

-  E-mail story
-  Comments
-  Printer friendly version
-  iPod friendly version
-  Share and Enjoy
-  Text Size: A A A A

Though Tennessee-American Water Co. is proposing to raise its rates by 20 percent, the jurisdictions that buy water from the utility won't have to raise rates until their contracts expire, officials said.

Walden's Ridge Utility District and Signal Mountain buy water from Tennessee-American and resell it to their local customers, according to Tennessee-American President John Watson.

The other utilities in the county get water elsewhere.

There are seven other water utilities in the county. The county's 10 water utilities serve about 137,000 customers, according to a report by County Auditor Bill McGriff's office.

Extra water costs from Tennessee American's rate increase, if approved by the Tennessee Regulatory Authority, could affect those water utilities once the contracts expire, Mr. Watson said.

Signal Mountain residents won't see an increase until next year, said Vice Mayor Herschel Dick, who previously oversaw the town's water system. The town's contract with the Tennessee-American began in July 2006 and lasts until July 2009, he said.

"We don't know what 2009 is going to bring us," he said.

The audit report shows that Signal Mountain's water is generally cheaper than the water Tennessee-American provides to its own residential customers.

For a residential customer buying 5,000 gallons of water from the Signal Mountain district, it costs \$19.47 a month as of mid-2007, the auditor's report shows. For a Tennessee-American customer, it was \$20.42 a month at the end of 2006.

Article: Chattanooga: Group makes waves over water rate hike

PDF: Re: Filing

PDF: Supplemental Response and Objections

Article: City, state want water rates set 'correctly,' not quickly

PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

Article: Tennessee Regulatory Authority limited in scope of power

Article: State, city won't use disputed consultant in Tennessee-American rate case

Article: Resume in water company case removed from Web

Article: Water rate hike won't immediately trickle

SHOP BLOCKBU TOTALAC

Over 80,000 TI

SAVAC



F

Looking for fir

V



Featured Propert

Signa Moun \$274, 3 Bed Click more

Chattanooga Times Free Pr



The reduced cost comes from the fact that Signal Mountain foots the bill to pump its water to customers, Mr. Dick said. Signal Mountain also gets a reduced rate from Tennessee-American based on the volume of water it buys, he said.

At the end of 2006, for residential customers who use 5,000 gallons, Tennessee-American had the sixth most-expensive water out of the 10 water utilities in the county, according to the auditor's report. But with the company's 12 percent increase in May of last year and its proposed 20 percent increase, it would become the fourth most expensive.

For commercial customers, the company is about second most expensive, according to the auditor's report, and would stay in that spot after the increase.

Mr. Watson has argued that the rate increase is necessary to maintain and improve Tennessee-American equipment such as pipes, meters and water-storage facilities.

It is "very difficult to compare rates of service" among water utilities, he said, because some utilities have tap fees — charges for turning on water service — and other charges not included in the rate itself. He also noted that geography and the location of the water source can greatly affect the cost of providing water.

Gene Hoffine, general manager of the Hixson Utility District, the cheapest water system in the county for residential customers, agreed.

"We have an excellent water source," Mr. Hoffine said, which keeps rates cheaper for its customers.

In Hixson, 5,000 gallons per month would cost \$9.78, according to the auditor's report.

Hixson's water comes from at "true groundwater source," he said, which means it does not have to be treated before it goes to the tap. Chlorine to kill bacteria and an additive to keep out phosphates are all that go in, he said.

Size matters, too, Mr. Huffine said. Hixson Utility District is the second-largest water provider in the county, serving about 24,500 customers.

Conversely, Sale Creek Utility District, Hamilton County's most-expensive and smallest water provider for residential customers, serves just more than 700 customers, said Jim Reavley, chairman of the board for the utility. A monthly bill for 5,000 gallons in Sale Creek is \$40.87, according to the auditor's report.

While small, Sale Creek has "the same expense as the larger companies," he said, which contributes to higher rates. Part of that debt comes from the widening several years ago of Dayton Pike, Mr. Reavley said.

"We had to move over 50 percent of our 10-inch mains," he said. "We're still paying on that."

Heavy Machine

Mec

Chattanooga, TN
WILLSTAFF
WORLDWIDE
STAFFING

REGISTERED

NURSE

Chattanooga, TN
Amedisys

Night Fry Cook

Chattanooga,
Tennessee South
Star

[More jobs](#)

DIRECTOR

BRIDAL | TRA

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



☒ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp
Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search for
Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Products | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.
 This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

This is America™
Free Checking

Bank of
Bank of U
Che

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:
classmates.com

AL AK AZ AR CA CO CT
KY LA ME MD MA MI MN
ND OH OK OR PA RI SC

[HOME](#) [NEWS](#) [SPORTS](#) [ENTERTAINMENT](#) [MULTIMEDIA](#) [BLOGS](#) [PHOTOS](#) [JOBS](#) [HOM](#)

Home » News » Local/Regional News

Wednesday, April 16, 2008, 12:00 a.m.

Council authorizes city attorney to intervene in water rate hike



By: Michael Davis
(Contact)

The Chattanooga City Council on Tuesday night voted unanimously to authorize the city to legally intervene in Tennessee-American Water Company's attempt to raise water rates more than 20 percent.

"If it's something that you oppose, then you need to be willing to get in the fray and say 'you know, we really do not support this,'" Council Chairman Linda Bennett said after the meeting. "It's not something that we have a lot of control over, so ... that's one of the things that we can do."

The council's vote to authorize filing of a "petition to intervene" came five days after the Hamilton County Commission approved a measure opposing the water company's proposal to the Tennessee Regulatory Authority.

The city's resolution calls the 20.58-percent rate hike "exorbitant" and asserts that the increase negatively would impact users on the heels of a 12.3-percent rate jump approved by the state regulatory authority last May.

"Such back-to-back increases will adversely effect all of the businesses and citizens of this community and may make this community less competitive with respect to economic development opportunities," the city resolution states.

Tennessee-American officials have said the company needs new revenue to pay for infrastructure improvements, operating and maintenance expenses and other costs.

Mike McMahan, with the city attorney's office, said intervention is "like a trial" in which opponents of the rate hike would argue against the water company's reasons for the increase.

"The water company said 'we need to increase our rates for a half dozen different reasons,'" Mr. McMahan said after Tuesday afternoon committee meetings. "We have to test their justification."

He said the Chattanooga Manufacturers Association and the consumer advocate with the state attorney general's office are joining the city in litigation.

ARTICLE TOOLS

- E-mail story
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

timesfreepress.com
Chattanooga Times Free Press audio

Dan Page

- Download MP3

Chattanooga City Council -- April 15, 2008

- Download MP3

Blockbuster Total Access
Over 80,000 Titles
Cloverfield

F
Looking for
cosmetologist
visit Mill

Featured Property



Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga
Times Free Press



Meanwhile, Councilman Dan Page asked that Hamilton County formally be invited to join in the petition.

Kim Dalton, spokeswoman for Tennessee-American, said after Tuesday's committee meetings that the water company is not surprised by the push for intervention.

"That's part of the process, and we understand it," she said. "That's the good thing about the process. It's an open forum. As I said, we have to prove our case."

Ms. Dalton said state regulators will make their decision in September.

In other business Tuesday, the City Council approved EPB using \$5.4 million in federal loan funds from the U.S. Department of Housing and Urban Development to provide "fiber-to-home" infrastructure to Alton Park, Clifton Hills, Park City, Piney Woods and South Chattanooga.

The council also approved two appointments to the city's new transportation board: Jill Veron, director of planning with the Chattanooga Area Regional Transportation Authority, and Andrea Anderson, with Courtyard By Marriott.

Ms. Veron fills an open seat on the nine-member panel, while Ms. Anderson fills the opening created by Bob Doak's resignation, said Dan Johnson, chief of staff to Mayor Ron Littlefield.

Mr. Doak, president and CEO of the Chattanooga Area Convention & Visitors Bureau, tendered his resignation effective Tuesday. According to a letter addressed to Mayor Ron Littlefield, Mr. Doak, who was chairman of the panel, could not give the amount of time needed for board service.

Meanwhile, during committee time Tuesday afternoon, Mr. Johnson briefed the council on an upcoming city software system that city officials said will increase efficiency and track things such as inventory and employee payroll information.

The council next week is expected to consider a measure to increase the consulting contract for Duley Hopkins & Associates on this consolidated system.

DRIVERS NEED
Chatt
Chattanooga, TN
AFFILIATED
TRUCKING

Sales- A RARE
OPPORT
Chattanooga, TN
DIXIE HOME
CRAFTERS

Drivers Region
Chattanooga, TN
ELIZABETH
HIGHTOWER/LAI

More jobs

DIRECTOR
BRIDAL | TRA

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

HOME | NEWS | SPORTS | ENTERTAINMENT | MULTIMEDIA | BLOGS | PHOTOS COMMUNITY | FYI

Search: ☐ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What're you Worth? | Cost-of-living Calculator | Job Assessor | M | Research Companies | Post Jobs Online | Post Jobs-Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

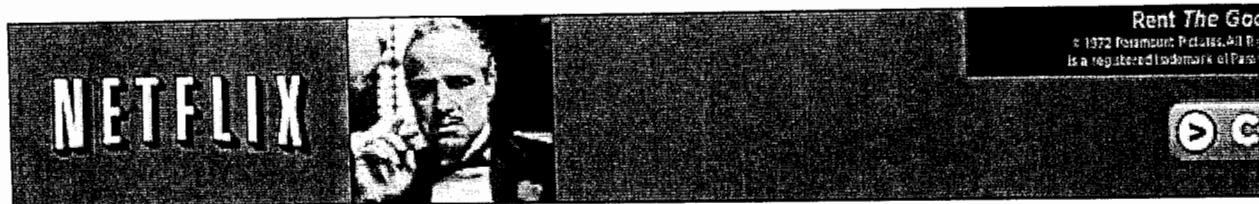
Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics

[Gifts](#) | [Food & Beverage](#) | [Furniture](#) | [Garage/Yard Sales](#) | [Health & Beauty](#) | [Home & Garden](#) | [Jewelry & Watches](#) | [Merchandise](#) | [Movies & Music](#) | [Office Products](#) | [Pets & Games & Video Games](#) | [Travel & Luggage](#) | [Advertiser List](#) | [Coupons](#) | [Ask the Experts](#) | [Find A Business](#)

Misc.: [Spotted](#) | [Search Articles](#) | [Search Archive](#) | [Full Access](#) | [Subscribe](#) | [Contact Us](#) | [Advertise](#) | [Promotions](#) | [Submit Events](#) | [Feedback](#) | [Place an Ad](#)

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)


WEDNESDAY, JULY 30TH, 2008

timesfreepress.com

Chattanooga Times Free Press

I GRADUATED IN: [AL](#) [AK](#) [AZ](#) [AR](#) [CA](#) [CO](#) [CT](#)
[KY](#) [LA](#) [ME](#) [MD](#) [MA](#) [MI](#) [MN](#)
 classmates.com [ND](#) [OH](#) [OK](#) [OR](#) [PA](#) [RI](#) [SC](#)

[HOME](#) [NEWS](#) [SPORTS](#) [ENTERTAINMENT](#) [MULTIMEDIA](#) [BLOGS](#) [PHOTOS](#) [JOBS](#) [HOMES](#)
[Home](#) » [News](#) » [Local/Regional News](#)

Friday, April 11, 2008, 12:00 a.m.

Hamilton County Commission unanimously opposes water rate hike



By: Jason Reynolds
 (Contact)



By: Matt Wilson
 (Contact)

After stinging Tennessee-American Water Co. officials with questions about the financial motives of its parent companies, the Hamilton County Commission voted 7-0 Thursday to oppose the utility's requested 20.58-percent rate increase.

The rate increase would add about \$3.65 per month to a residential customer's bill.

"This is a great asset, but here recently y'all haven't done a very good job running that asset," said Commissioner John Allen Brooks. "I think it's an asset that should be in control of the people."

Mr. Brooks, as well as commissioners Jim Coppinger and Warren Mackey, suggested the water company should be sold to the city of Chattanooga.

John Watson, president of Tennessee-American, said his utility is not for sale. He said Tennessee-American's parent company, American Water Works Co., is moving from private ownership to the New York Stock Exchange.

Commissioners accused the water utility of trying to increase its value leading up to the initial public offering of American Water Works. They also accused the company of wanting to use the proposed rate increase to pay off the debt of American Water Works' parent company, Germany-based RWE.

"Are you telling me that this money that you borrowed, that you didn't pay back, did the tooth fairy bring you money?" asked Commissioner Fred

ARTICLE TOOLS

- E-mail story
- Comments
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

timesfreepress.com

Chattanooga Times Free Press audio

Tennessee-American Water Co. officials Mike Miller and John Watson discuss their company's rate proposals with the Times Free Press editorial board.

- Download
MP3 -

Hamilton County Commission agenda session -- April 10, 2008

- Download
MP3 -

Article: Chattanooga: Group makes waves over water rate hike

PDF: Re: Filing

PDF: Supplemental Response and Objections

Article: City, state want water rates set 'correctly,' not quickly

PDF: Order from the Tennessee regulatory authority in Tennessee-American water rate case

Article: Tennessee Regulatory Authority limited in scope of power

Article: State, city won't use disputed consultant



Looking for vinyl



Featured Property

Signa Moun
\$274,
3 Bed
Click more

Chattanooga Times Free Press



Skittern. "Or did you get it from the rate of the customers?"

Before commissioners passed the resolution opposing the increase, County Mayor Claude Ramsey asked that it be amended to ask the Tennessee Regulatory Authority to hold public hearings in Hamilton County on the issue.

Three Chattanooga mayors in four decades have discussed trying to buy the water company, but those efforts failed because of lack of public support.

Later, at a meeting with editors and reporters at the Chattanooga Times Free Press, Mike Miller, treasurer for Tennessee-American, denied the rate increase is tied to American Water's IPO, which federal documents say could generate up to \$1.9 billion.

"There is absolutely no correlation," Mr. Miller said. "That is not the reason we're filing this rate case."

If approved in full, the rate increase would generate an extra \$7.6 million in revenue, Tennessee-American officials estimate, and help the utility recover \$21.4 million in capital investments and higher operating costs.

"We are not going to apologize for the rate increase because it is what we need to do to operate this business responsibly," Mr. Watson said.

The water company's last rate increase, 12.3 percent, occurred in May 2007. That increase helped Tennessee-American spend \$27 million on infrastructure, Mr. Watson said. Infrastructure includes such items as pipes, meters and water-storage facilities.

Mr. Miller said the rate increase is needed for a federally mandated \$1.36 million contribution to the company's pension plan, for \$2.4 million in capital improvements, which include \$529,000 in property taxes, and \$2.9 million in increased operating and maintenance costs.

The operating-cost increase includes an additional \$627,000 in higher fuel prices and a rate increase by EPB and the Tennessee Valley Authority, Mr. Miller said. Also, the cost of water treatment chemicals has risen, he said.

Aging infrastructure is an issue across the nation for municipal and private water providers, Mr. Miller and Mr. Watson said.

"We are not serving customers if we put off capital costs in the long run," Mr. Miller said.

A 2005 report by the U.S. Environmental Protection Agency showed Tennessee's water infrastructure was inadequate and needed an investment of more than \$2.7 billion to meet federal standards, Mr. Watson said. The study did not apply to Chattanooga because of Tennessee-American's investments in the infrastructure, he said.

ABOUT TENNESSEE-AMERICAN

* Tennessee-American Water Co. is the largest investor-owned water utility in the state, providing water and/or wastewater services to more than 391,000 people in Tennessee and North Georgia.

* The company has about 74,540 residential and business customers.

* Tennessee-American has 1,277 miles of water mains, about the distance from Chattanooga to Denver.

* The average residential customer pays \$17.23 per month for 4,487 gallons.

Source: Tennessee-American Water Co.

**RESPIRATORY
THERAPIST
(RRT/CRT)**
Chattanooga, TN

Can You Dig It?
Chattanooga, TN
GATEHOUSE MEI
INC./ NAT

**OPTOMETRIC
TECH / AS**
Chattanooga, TN
KAPPERMAN AND
WHITE EYE

[More jobs](#)

DIRECTOR

BRIDAL | TRAVEL

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

Search:



☒ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyl: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | M | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)


WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:

AL	AK	AZ	AR	CA	CO	CT
KY	LA	ME	MD	MA	MI	MN
ND	OH	OK	OR	PA	RI	SC

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOW](#)

Home » Business » Tennessee Valley Business

Friday, April 4, 2008, 12:00 a.m.

Tennessee-American to be spun off in IPO



By: Jason Reynolds

(Contact)

The parent of Tennessee-American Water Co. is being spun off as a separate company in a stock sale that's expected to generate up to \$1.9 billion for its German owner.

Germany-based RWE Group has filed documents to make an initial public offering of shares in American Water Works Co. Inc., the U.S. parent of Tennessee-American. No date for stock offering has been set, according to Securities and Exchange Commission prospectus documents.

"We had speculated for some time that it was coming," said Ray Childers, president of the Chattanooga Manufacturers Association. "There were quite a few people who were convinced that the impending spinoff was connected in some way to the rate increase."

Tennessee-American three weeks ago filed a request with Tennessee regulators for a 20.58 percent rate increase. The last increase was 12.3 percent in May 2007. The average residential customer pays \$17.23 per month, and if the increase is approved in full it would add \$3.65 per month.

Kim Dalton, Tennessee-American spokeswoman, said the company had an IPO attempt last year that failed after a missed deadline. She confirmed that American Water has filed a new IPO proposal, but declined further comment, saying SEC regulations prevent company officials from discussing public offerings.

RWE decided in November 2007 to cancel the previous stock offering because "unfavorable conditions" in U.S. capital markets meant the IPO could not generate enough money, according to the company's Web site.

American Water expects individual shares to debut from \$24 to \$26, documents show, and 64 million shares will be offered through the New York Stock Exchange under the symbol "AWK." The underwriting banks have the option of buying an extra 9.6 million shares.

American Water serves 15.6 million customers in 32 states and Ontario, Canada, according to SEC filings.

A decade ago former Chattanooga Mayor Jon Kinsey failed in an attempt to seize Tennessee-American facilities by eminent domain following a lawsuit and intense public relations campaign by the utility.

ARTICLE TOOLS

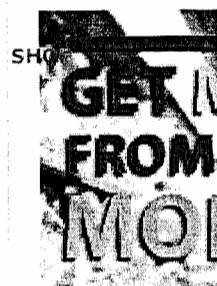
- E-mail story
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

timesfreepress.com
Chattanooga Times Free Press audio



Ray Childers

- Download MP3 -



- ☒ Log in
- ☒ Search for
- ☒ Print out



F
Looking for re
c
Vi



Featured Property

Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga
Times Free Pr

ON THE WEB

tawc.com

sec.gov



CUSTOMER SERVICE Mon
Chattanooga, TN
JOSTENS

INSURANCE AG Lead
Chattanooga, TN
SENIOR LIFE
INSURANCE
COMPANY

Crane America Service
Chattanooga, TN
CRANE AMERICA
SERVICES

More jobs

DIRECTOR

BRIDAL | TRA

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



☒ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | R | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King
of Your Castle

BUILD YOUR OWN CASTLE

↑ DRAG HERE ↑

LendingTree
WHY BANKS COMPETE FOR YOU

Refinance
\$400,000
\$300,000
\$200,000

*Terms an

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:
 classmates.com

AL	AK	AZ	AR	CA	CO	CT
KY	LA	ME	MD	MA	MI	MN
ND	OH	OK	OR	PA	RI	SC

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOM](#)

Home » News » Local/Regional News

Thursday, April 3, 2008 , 12:00 a.m.

Water rate hike protest planned



By: Matt Wilson
(Contact)

PDF: Water Utility

Hamilton County Mayor Claude Ramsey on Wednesday said he wants city and county officials to pass a joint resolution opposing a proposed Tennessee-American Water Co. rate increase.

"There will be a process where I hope we could intervene," he said. "I know the manufacturers association is very concerned about it, and a lot of our citizens are concerned about it."

At Wednesday's Hamilton County Commission meeting, Mr. Ramsey asked County Attorney Rheubin Taylor to meet with City Attorney Randy Nelson to draft the resolution. No commissioners voiced objections.

The water company is asking for its second rate increase in less than a year. The company has filed a request with state regulators to increase rates by about 20 percent, or about 12 cents per day for the average residential customer.

"We recognize the responsibility that Mayor Ramsey and the commission have in representing the interest of the county residents," John Watson, president of Tennessee-American Water, said in an e-mail statement. "We look forward to presenting the details of the rate filing and to answering the commission's questions before they consider the resolution. We hope to do the same thing with the City Council."

The added revenue would go to infrastructure improvements in the system, company officials said.

Richard Beeland, a spokesman for Chattanooga Mayor Ron Littlefield, said city officials plan to contest the rate increase.

"We welcome the county's shared concern on this issue," he said.

Commissioner Richard Casavant suggested that officials attach to the resolution a copy of a county auditor's analysis of water utilities throughout the county.

That analysis found that a Tennessee-American residential water bill for 10,000 gallons of usage was the sixth most expensive out of the county's 10 water utilities.

ARTICLE TOOLS

- E-mail story
- Comments
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

timesfreepress.com
Chattanooga Times Free Press audio



Hamilton County Commission

- Download MP3 -

SHOP BLOCKBU TOTALAC

Over 80,000 Titles

CLOVERFIELD

F

Looking for a
Visit Ge

Featured Property



Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga
Times Free Pr

County Commission Chairman Bill Hullander said the commission could vote on a resolution to oppose the increase by its April 10 meeting.

Also on Wednesday, the commission unanimously passed a resolution to provide \$54,400 to the Chattanooga-Hamilton County Health Department for tuberculosis prevention.

Dr. Casavant asked department Administrator Becky Barnes how much of a problem tuberculosis has been in Hamilton County.

“Any time there’s any TB in our community there’s a problem,” she said.

Ms. Barnes said the county records about 13 to 14 cases of the illness each year. She also noted that there have been no instances of tuberculosis strains entirely resistant to drugs.

Last year, a former employee at Chattanooga’s Pilgrim’s Pride chicken processing plant was diagnosed with tuberculosis, causing the company and local health officials to warn employees about possible exposure. A company nurse sent about 30 workers home after they received a warning letter.

Tests showed that there was no evidence of the illness spreading among workers.

WHAT HAPPENED

Tennessee-American Water last raised its rates in May 2007, when it instituted a 12.3 percent increase. The utility then had asked the Tennessee Regulatory Authority for a 19.7 percent increase. The 20.6 percent increase the utility now is requesting would be the largest in the company’s 138 years.

CUSTOMER SERVICE Monday
Chattanooga, TN
JOSTENS

INSURANCE Agency
Lead
Chattanooga, TN
SENIOR LIFE
INSURANCE
COMPANY

Crane America
Service
Chattanooga, TN
CRANE AMERICA
SERVICES

More jobs

DIRECTOR
BRIDAL | TRAVEL

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



Site



Archives



Web

TimesFreePress.com: [Latest News](#) | [Local/Region](#) | [Obituaries](#) | [Columnists](#) | [Editorial Cartoons](#) | [Business](#) | [Politics](#) | [Health](#) | [News Projects](#) | [Web Exclusives](#) | [Preps Sports](#) | [Life / Entertainment](#) | [Baby Boomers](#) | [Local Video](#) | [Podcasts](#) | [Multimedia Projects](#) | [Blogs](#) | [Photo Gallery](#) | [Slideshows](#)

Community: [News](#) | [Correspondents](#)

Fyi: [Web Exclusives](#) | [Top Picks](#) | [Music](#) | [Movies](#) | [Dining](#) | [Arts](#) | [MediaBytes](#) | [Out&About](#) | [Today's Events](#) | [Event Search](#) | [Submit Events](#) | [Search FYI Articles](#) | [Search FYI](#)

Jobs: [Create an Account](#) | [Log in](#) | [Post a Resume](#) | [Search Jobs](#) | [Related Job Articles](#) | [I Love My Job](#) | [What are you Worth?](#) | [Cost-of-living Calculator](#) | [Job Assessor](#) | [Research Companies](#) | [Post Jobs Online](#) | [Post Jobs Online + Newspaper](#)

Cars: [Find a Vehicle](#) | [Sell Your Vehicle](#) | [Find a Dealer](#) | [Recreational Vehicles](#) | [Research & Resources](#) | [Car Review](#) | [Cruisin Articles](#) | [Readers' Rides Articles](#) | [View Cars](#)

Homes: [Search for Sale](#) | [Search for Rent](#) | [Articles, Tools & Resources](#) | [School Information](#) | [Community Information](#) | [Homefinder](#) | [Agent Directory](#) | [Property Value Research](#)

Shop: [Announcements](#) | [Apparel](#) | [Appliances](#) | [Automotive & Boating](#) | [Books & Magazines](#) | [Camera & Photo](#) | [Computers & Software](#) | [Coupons](#) | [Education](#) | [Electronics](#) | [Gifts](#) | [Food & Beverage](#) | [Furniture](#) | [Garage/Yard Sales](#) | [Health & Beauty](#) | [Home & Garden](#) | [Jewelry & Watches](#) | [Merchandise](#) | [Movies & Music](#) | [Office Products](#) | [Pets & Games](#) | [Video Games](#) | [Travel & Luggage](#) | [Advertiser List](#) | [Coupons](#) | [Ask the Experts](#) | [Find A Business](#)

Misc.: [Spotted](#) | [Search Articles](#) | [Search Archive](#) | [Full Access](#) | [Subscribe](#) | [Contact Us](#) | [Advertise](#) | [Promotions](#) | [Submit Events](#) | [Feedback](#) | [Place an Ad](#)

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

SITE MAP | MOBILE | EMAILS | SUBSCRIBE | ARCHIVES | CONTACT US | ADVERTISE | PROMOTIONS | SUBMIT EVENTS | FEEDBACK

WEDNESDAY, JULY

timesf
Chatta

HOME NEWS

Home » Business

Wednesday, April 2, 2008

City in rate race



By: Jason Reynolds

(Contact)

Slide me.

Pull me.

Switch me.

[x] close

Comments
 Printer friendly version
 iPod friendly version
 Share and Enjoy
 Text Size: A A A A

Chattanooga has the highest average residential water rate among Tennessee's major cities even without a proposed increase.

The average customer of Tennessee-American Water Co. pays \$17.23 a month, the company estimates. That's higher than Memphis, Nashville and Knoxville, figures show.

However, in July Memphis is slated to increase its rate 15 percent, thereby putting the average homeowner's water bill at \$19.68, well ahead that of Chattanooga.

But Memphis' being the price leader may not last long.

Tennessee-American, a privately owned utility in Chattanooga, has asked state regulators to approve a 20.58 percent raise, following a 12.3 percent hike last May.

"We need this increase to continue to serve our customers and give them the quality of service they've come to expect," said Tennessee-American spokeswoman Kim Dalton.

Memphis residents pay \$17.11 per month and the water provider there is increasing rates 15 percent in July, said Chris Stanley, spokesman for Memphis Light, Gas and Water Division, a city utility.

Nashville's water company, which is owned by city government, last changed its rates in 1999, which was a 5 percent decrease, said Shannon Frye, customer service assistant manager for Metro Water Services. Prior to that, the last increase was 6 percent in 1992, she said.

Knoxville Utilities Board, also a municipal utility, increased its rates in October 2007 by 10 percent, said spokeswoman Jennifer Fern.

The average residential bill does not include sewer charges.

One Tennessee-American customer Tuesday said he isn't fazed by the company's requested rate increase.

"Water is cheaper than cable and electricity," said downtown Chattanooga resident Steve Cantrell. "Water is probably the most limited resource coming into your home."



☒ Log in
☒ Search for
☒ Print out

F
 Looking for
 cosmetol
 visit Mill



Featured Property

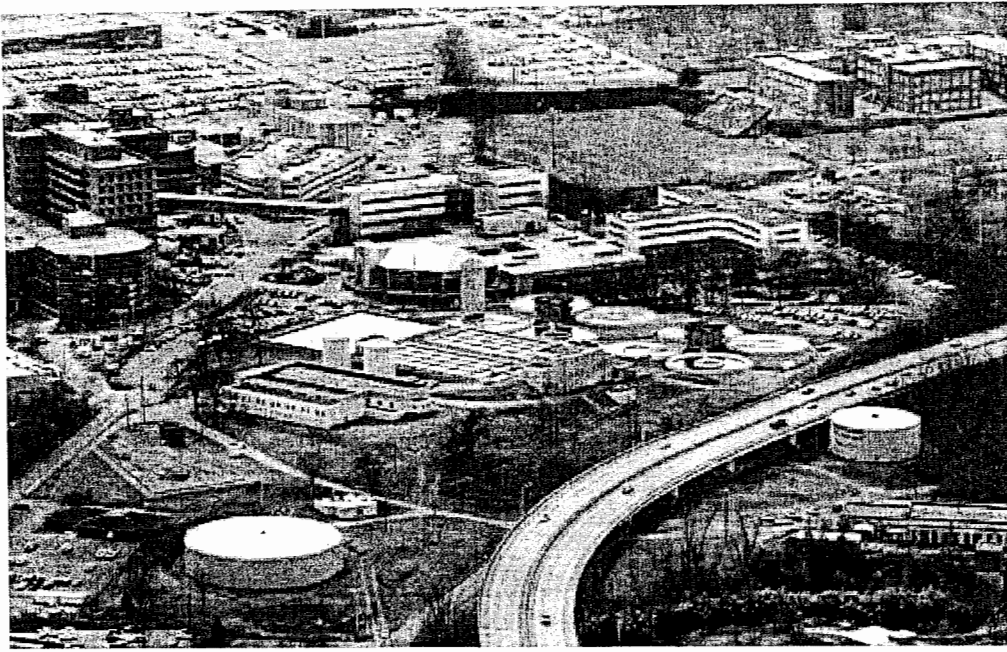


Signa
 Moun
 \$274,
 3 Bed
 Click
 more

Chattanooga
 Times Free Pr

Another customer, Duane Kapp, estimates his average water bill is \$40 per month. While the rate hike wouldn't "mean a whole lot" to his monthly bill, Mr. Kapp said, he is concerned whether another increase is needed after last year's increase.

He said he also is curious what Tennessee-American officials earn and what type of government oversight is involved.



Staff File Photo by John Rawlston-- Tennessee-American Water Co. facilities near downtown Chattanooga appear in the center of this aerial photo. In the background are T.C. Thompson Children's Hospital and the Hamilton County Health Department.

The Tennessee Regulatory Authority, which oversees utilities, has until Sept. 14 to raise rates by the full amount, approve a partial increase or deny the petition. The authority's directors Monday will appoint an official to hear the water company's request for an increase, said Phil West, TRA spokesman.

Tennessee-American would use the extra funds to make \$8.8 million in improvements to its Citico water treatment plant as well as do maintenance on water mains and hydrants, Ms. Dalton said.

The company also has been hit by higher gasoline costs for its service vehicles. And, Tennessee-American's electricity bill last year was \$2 million, Ms. Dalton said, and an electricity increase this month by the Tennessee Valley Authority will likely tack on an additional \$225,000 to Tennessee-American's annual power bill.



ANALYST Funct in

Chattanooga, TN
CAPITALMARK B.
& TRUST

SECURITY GUA

\$18/
Chattanooga, TN
THREE STARS M

SALES ASSOCI

Fas
Chattanooga, TN
SWEETLY SOUTH

More jobs

DIRECTOR

BRIDAL | TRA

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



☒ Site | ☐ Archives | ☐ Web

[TimesFreePress.com](#): Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | M
| Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

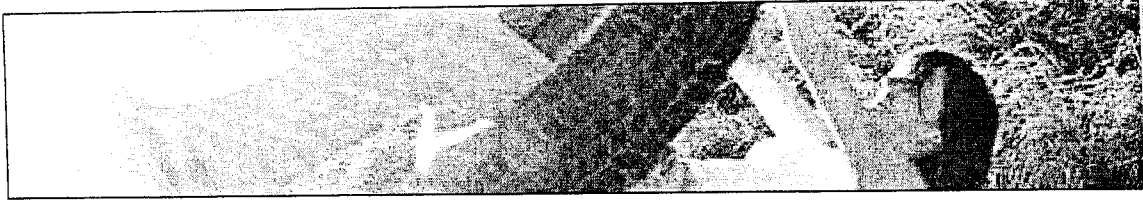
Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics
Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets &
Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)



Bank of
Bank of O
Cha

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:
 classmates.com

AL AK AZ AR CA CO CT
KY LA ME MD MA MI MN
ND OH OK OR PA RI SC

[HOME](#) [NEWS](#) [SPORTS](#) [ENTERTAINMENT](#) [MULTIMEDIA](#) [BLOGS](#) [PHOTOS](#) [JOBS](#) [HOME](#)

Home » News » Local/Regional News

Sunday, March 30, 2008, 12:00 a.m.

Water rate hike makes waves with lawmakers



By: Andy Sher
(Contact)

NASHVILLE — Tennessee-American Water Co.'s request for a 20.58 percent increase in water rates is churning up waves among some members of Hamilton County's legislative delegation.

Rep. Richard Floyd, R-Chattanooga, said he may go before the Tennessee Regulatory Authority to oppose the increase, which comes on top of last year's 12.3 percent increase.

"You can make numbers say anything you want to," Rep. Floyd, a retired businessman, said after a presentation last week by Tennessee-American President John S. Watson to local lawmakers.

PDF: Tennessee-American Water's filing

Article: Tennessee-American Water seeks highest rate hike in history

The investor-owned company on March 14 filed documents with the regulatory authority seeking an overall increase of \$7.645 million to help recover what company officials say is \$21.4 million in increased capital costs and operating costs.

Mr. Watson said rates paid by the average residential customer who uses 4,305 gallons a month would rise \$3.65 per month to \$20.19.

"As a regulated water utility that serves customers here in Chattanooga, we think it's very important that, one, we make improvements and continue to provide good, quality service," Mr. Watson said of the increase.

He said costs in areas ranging from replacing water mains to fuel continue to soar.

When delegation members pointed out the company gets its water free from the Tennessee River, Mr. Watson agreed, but he said no one wants to drink untreated water and few want personally to tote the 140 gallons of water each residential customer uses on average.

"We don't really sell water quite frankly, in my opinion," Mr. Watson said. "We sell service. We provide the treatment of water. We provide the transportation of water."

Mr. Watson said labor, energy and water treatment chemicals account for the bulk of operational costs. He said the company is spending millions of dollars to replace water mains and other capital expenses.

"I understand your argument about fuel and everything else, but the consumer has the same pressures," said Sen.

ARTICLE TOOLS
 E-mail story
 Printer friendly version
 iPod friendly version
 Share and Enjoy
 Text Size: A A A A

SHOP **BLOCKBU**
TOTALAC
Over 80,000 Tit
SAVAGE

F
Looking fo
cosmetol
visit Mill

Featured Property



Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga
Times Free Pr



Bo Watson, R-Hixson.

Sen. Watson and Tennessee-American's Mr. Watson are not related.

In response to questions from Rep. Floyd, Mr. Watson said the regulatory authority last year approved a 9.63 percent return on equity. But he said because the company's expenses increased faster than anticipated, the actual return was 5.7 percent.

"Of that, as I say, roughly \$2.6 million was the net income to the common stockholders," Mr. Watson told the lawmakers.

"Which is not bad, since they've got a monopoly," interjected Rep. Gerald McCormick, R-Chattanooga, the delegation's chairman. "They don't have any competitors."

This year's 970-page filing with the Tennessee Regulatory Authority proposes an 11.75 percent return on equity to holders of the company's common stock for their investments.

Sen. Andy Berke, D-Chattanooga, told Mr. Watson that "I'm not sure that I understand this regulatory scheme that you operate under where you spend the money first and go afterward to ask to recover the costs."

He said he is "not sure what your incentives are to contain costs or time the expending of those costs."

Mr. Watson said "the real answer is we have to demonstrate each and every penny of that."

He said the filings are forward projections based on current-year expenses.

Noting last year's rate increase was based on expectations of paying \$2.40 a gallon for fuel, Mr. Watson noted regular gas was running \$3.09 per gallon in February and diesel now is priced about \$3.94.

Rep. Floyd represents an area of Lookout Valley at Raccoon Mountain that he says has no water service at all.

"My problem with it (is) there's nothing in there that's going to help get some water to people who need it," said Rep. Floyd, who also blames Chattanooga and Hamilton County officials for the problem.

"The bottom line is we got people that don't have water from the river at the foot of the mountain and is there anything in the future that's going to address that?" Rep. Floyd told Mr. Watson. "If there's not, I'm going to the TRA with you, and I'm going to oppose this as heavily as I can."

Mr. Watson said about 17 homes are affected and the cost of providing the service would be \$2 million. That drew strong disagreement from Rep. Floyd, who said he and residents believe they have gotten the costs down to below \$700,000.

"What you've also got to realize is we can't go out and spend money on new customers instead of our current customers," Mr. Watson said. "And we're not allowed to speculate."

Rep. JoAnne Favors, D-Chattanooga, said "most of my constituents who have contacted me have been very disturbed" about the proposed increase.

She said she hopes the regulators look at the proposal "very carefully because I look askance at that, coming in less than a year I think from the last rate increase."

Rep. Jim Cobb, R-Spring City, said that it "hasn't been proven to me yet that a rate increase is necessary."

Last year, the water company sought a 19.7 percent rate increase. The Tennessee attorney general's consumer office objected and recommended the regulatory authority actually cut Chattanooga's rates by 2 percent.

TRA directors ignored the recommendation and approved the 12.3 percent increase — the largest in Chattanooga history.

Chattanooga Mayor Ron Littlefield, some Hamilton County commissioners and the Chattanooga Manufacturers Association already have criticized the proposed increase.

Auto Body/Paint Tech

Chattanooga, TN
CLOSSIN, WILLI.

Assistant Head Teller

Chattanooga, TN
NORTHWEST
GEORGIA BANK

SKILLED TRADE IMMEDIATE

Chattanooga, TN
CALIPER, INC.

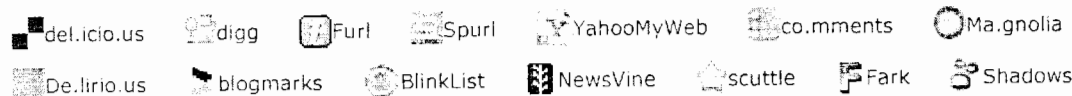
[More jobs](#)

DIRECTOR

BRIDAL | TRA

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



[Subscribe Here!](#)

[How to avoid heat stroke](#)

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



[Site](#)



[Archives](#)



[Web](#)

TimesFreePress.com: [Latest News](#) | [Local/Region](#) | [Obituaries](#) | [Columnists](#) | [Editorial Cartoons](#) | [Business](#) | [Politics](#) | [Health](#) | [News Projects](#) | [Web Exclusives](#) | [Preps Sp](#) | [Life / Entertainment](#) | [Baby Boomers](#) | [Local Video](#) | [Podcasts](#) | [Multimedia Projects](#) | [Blogs](#) | [Photo Gallery](#) | [Slideshows](#)

Community: [News](#) | [Correspondents](#)

Fyi: [Web Exclusives](#) | [Top Picks](#) | [Music](#) | [Movies](#) | [Dining](#) | [Arts](#) | [MediaBytes](#) | [Out&About](#) | [Today's Events](#) | [Event Search](#) | [Submit Events](#) | [Search FYI Articles](#) | [Search f](#)

Jobs: [Create an Account](#) | [Log in](#) | [Post a Resume](#) | [Search Jobs](#) | [Related Job Articles](#) | [I Love My Job](#) | [What are you Worth?](#) | [Cost-of-living Calculator](#) | [Job Assessor](#) | [A](#) | [Research Companies](#) | [Post Jobs Online](#) | [Post Jobs Online + Newspaper](#)

Cars: [Find a Vehicle](#) | [Sell Your Vehicle](#) | [Find a Dealer](#) | [Recreational Vehicles](#) | [Research & Resources](#) | [Car Review](#) | [Cruisin Articles](#) | [Readers' Rides Articles](#) | [View Car](#)

Homes: [Search for Sale](#) | [Search for Rent](#) | [Articles, Tools & Resources](#) | [School Infomation](#) | [Community Information](#) | [Homefinder](#) | [Agent Directory](#) | [Property Value Rese](#)

Shop: [Announcements](#) | [Apparel](#) | [Appliances](#) | [Automotive & Boating](#) | [Books & Magazines](#) | [Camera & Photo](#) | [Computers & Software](#) | [Coupons](#) | [Education](#) | [Electronics](#) | [Gifts](#) | [Food & Beverage](#) | [Furniture](#) | [Garage/Yard Sales](#) | [Health & Beauty](#) | [Home & Garden](#) | [Jewelry & Watches](#) | [Merchandise](#) | [Movies & Music](#) | [Office Produ](#) | [Pets &](#) | [Games & Video Games](#) | [Travel & Luggage](#) | [Advertiser List](#) | [Coupons](#) | [Ask the Experts](#) | [Find A Business](#)

Misc.: [Spotted](#) | [Search Articles](#) | [Search Archive](#) | [Full Access](#) | [Subscribe](#) | [Contact Us](#) | [Advertise](#) | [Promotions](#) | [Submit Events](#) | [Feedback](#) | [Place an Ad](#)

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King
of Your Castle

BUILD YOUR
OWN CASTLE
↑ DRAG HERE ↑

LendingTree
WHY BANKS LOSE. YOU WIN.

Refinance
\$400,000
\$300,000
\$200,000

*Terms an

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:

AL	AK	AZ	AR	CA	CO	CT
KY	LA	ME	MD	MA	MI	MN
ND	OH	OK	OR	PA	RI	SC

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOM](#)

Home » News » Local/Regional News

Saturday, March 15, 2008 , 12:00 a.m.

No drought for water prices


By: Jason Reynolds
(Contact)

PDF: Tennessee American's filing

Chattanooga residents can add water to the list of commodities such as fuel and electricity that are going up in price.

Tennessee-American Water Co. on Friday afternoon filed a request with the Tennessee Regulatory Authority to raise residential water bills by an average of \$3.65 per month, or 20.58 percent. The increase would be the largest in the company's 138 years.

"There have been a lot of utility rate increases in the community," Tennessee-American President John Watson said. "That says there are costs being incurred by utilities. Our filing is based on what our needs are."

The Tennessee Regulatory Authority has up to six months to approve the increase in the full amount, deny the increase, or approve a partial increase.

Mr. Watson said Tennessee-American, which had revenue of \$37.5 million last year, wants to raise an additional \$21.4 million to pay for infrastructure improvements.

"I'm very disappointed they're asking for such a large increase after receiving the 12.3 percent increase (in May 2007)," Chattanooga Mayor Ron Littlefield said. "We contested that one. I'm confident we'll contest this request as well."

Manufacturing leader Ray Childers echoed Mr. Littlefield's opposition to the proposed rate hike.

"That's terrible," said Mr. Childers, president of the Chattanooga Manufacturers Association. "I'm amazed they would do that. It seems like every time we turn around someone is raising prices. Prices are not being raised by normal amounts."

The average cost of a regular gallon of gasoline in Chattanooga on Friday was \$3.16, according to AAA's Daily Fuel Gauge Report. A year ago a regular gallon cost \$2.40, records show.

EPB and other regional power providers in April will begin passing through a 9 percent rate increase by the

ARTICLE TOOLS

- E-mail story
- Comments
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A

timesfreepress.com
Chattanooga Times Free Press audio


John Watson

- Download MP3 -

SHOP

BLOCKBUSTER TOTAL AC
Over 80,000 Titles

SAVAGE

Looking for fir

Featured Property

Signal Mountain
\$274,000
3 Bed
Click more

Chattanooga Times Free Press



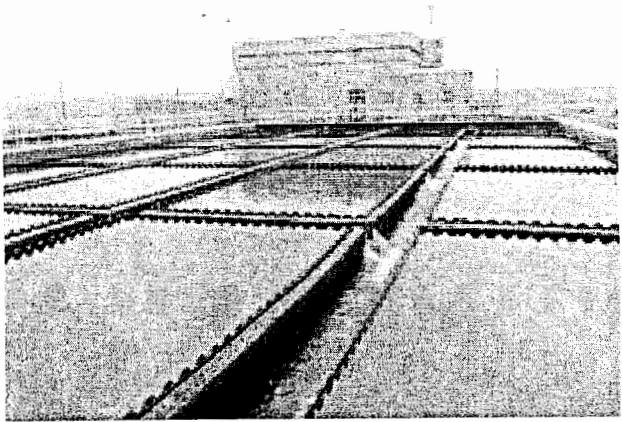
Tennessee Valley Authority, EPB President Harold DePriest said. The increase includes a 6 percent increase in the base rate that TVA charges utilities, he said, and 3 percent more for higher fuel costs. EPB and other utilities simply are passing along the increased rate and are not gaining additional revenue, he said.

Mr. Watson said water bills also include state sales tax and municipal sewer charges and, in some areas such as Red Bank, garbage collection fees.

Typically, the Tennessee Regulatory Authority, which oversees utilities, approves a lower amount than the water company requests. The last increase was 12.3 percent in May 2007, the highest single increase up to this time. The utility had asked for a 19.7 percent hike then.

The proposed rate hike would provide \$8.8 million for improvements to the company's Citico Water Treatment Plant on Riverfront Parkway, including replacing a 92-year-old sedimentation basin. The hike also would allocate \$6.6 million for maintenance on water mains and hydrants as well as installing electronic water meters.

Tennessee-American's 2007 rate increase generated \$27 million in additional revenue that the company invested in infrastructure, Mr. Watson said.



Staff Photo by Angela Lewis -- Tennessee American Water Co., is requesting to raise residential rates to cover needed improvements. Flocculators would be added to the settling basins with the money gained through the increase, along with many other renovations.

Pawn Shops of Americ

Chattanooga, TN
CHECK INTO CA
OF TN

MEDICAL MARKETING P

Chattanooga, TN
ACADEMY ALLIE
HEALTH

Crane America Servic

Chattanooga, TN
CRANE AMERICA
SERVICES

More jobs

DIRECTOR

BRIDAL | TRA

Comments

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

Preview comment

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, click here.

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



[Subscribe Here!](#)

[How to avoid heat stroke](#)

Search:



Site |



Archives |



Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sports | Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics | Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Products | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King
of Your Castle

**BUILD YOUR
OWN CASTLE**

↑ DRAG HERE ↑

LendingTree
WHILE BANKS COMPLETE YOU WIN

Refinance
\$400,000
\$300,000
\$200,000

*Terms an

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press

I GRADUATED IN:

AL	AK	AZ	AR	CA	CO	CT
KY	LA	ME	MD	MA	MI	MN
ND	OH	OK	OR	PA	RI	SC

classmates.com

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOM](#)

Home » News » Latest News

Friday, March 14, 2008 , 3:32 p.m.

Tennessee-American Water seeks highest rate hike in history



By: Jason Reynolds
(Contact)

PDF: Tennessee American's filing

Tennessee-American Water Co. filed a motion this afternoon with state regulators to raise residential water bills an average of \$3.65 per month, a 20.58 percent increase.

"The filing is based on what our needs are," said John Watson, president of Tennessee-American. "Based on the evidence and public input, a decision will be made" within 180 days.

The water company filed its request this afternoon with the Tennessee Regulatory Authority. Tennessee-American wants to increase rates to raise an additional \$21.4 million to pay for infrastructure improvements, Mr. Watson said. That would be the largest increase in the company's 138-year history.

"I'm very disappointed they're asking for such a large increase after receiving the 12.3 percent increase," Chattanooga Mayor Ron Littlefield said. "We contested that one. I'm confident we'll contest this request as well."

Mr. Watson said that Tennessee-American isn't the only utility facing rising costs for materials, including fuel.

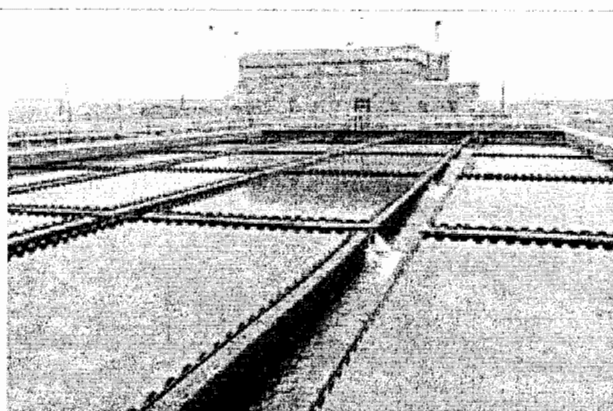
"There have been a lot of utility rate increases in the community," said Tennessee-American President John Watson. "That says there are costs being incurred by utilities."

EPB and other regional power providers in April will begin passing through a 9 percent rate increase by the Tennessee Valley Authority, said EPB President Harold DePriest. The increase includes a

timesfreepress.com
Chattanooga Times Free Press audio

John Watson

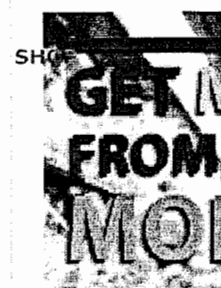
- Download MP3 -



Staff Photo by Angela Lewis -- Tennessee American Water Co., is requesting to raise residential rates to cover needed improvements. Flocculators would be added to the settling basins with the money gained

ARTICLE TOOLS

- E-mail story
- Comments
- Printer friendly version
- iPod friendly version
- Share and Enjoy
- Text Size: A A A A



☒ Log in
☒ Search for
☒ Print out

F
Looking for vinyl

Featured Property

Signa
Moun
\$274,
3 Bed
Click
more

Chattanooga
Times Free Pr



6 percent increase in the base rate that TVA charges utilities, he said, and 3 percent more for higher fuel costs. EPB and other utilities are simply passing through the increased rate, and are not gaining additional revenue, he said.

Typically, the Tennessee Regulatory Authority, which oversees utilities, approves a lower amount than the water company requests. The last increase was May 2007, 12.3 percent, the highest single increase up to this time. The utility had asked for a 19.7 percent hike at the time.

The proposed rate hike would provide \$8.8 million for improvements to the company's Citico treatment facility on Riverfront Parkway, including replacing a 92-year-old sedimentation basin. The hike also would allocate \$6.6 million for maintenance on water mains and hydrants, as well as installing electronic water meters.

For complete coverage, see tomorrow's Chattanooga Times Free Press.

Teller- Perform**var**Chattanooga, TN
NORTHWEST
GEORGIA BANK**SECURITY-****Wackenhut h**Chattanooga, TN
WACKENHUT
SECURITY**RESPIRATORY****THERAPIST****(RRT/CRT)**

Chattanooga, TN

[More jobs](#)**DIRECTOR**

BRIDAL | TRA

Comments

They get their raw material for free so how can they justify this except for greed?

We should have let the city take this over when we had the chance.

0 of 0 people found this comment useful.

[Suggest removal](#)

By: Anonymous Name | Username: BillyDuke | On: March 14, 2008 at 5:31 p.m.

Post a comment

Commenting requires registration.

Username:

Password: (Forgotten your password?)

Comment:

[Preview comment](#)

Posted comments do not represent the opinions of the Chattanooga Times Free Press. Profanities, slurs and libelous remarks are prohibited. To view complete guidelines for submitting content, comments and feedback, [click here](#).

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



[Subscribe Here!](#)

How to avoid heat stroke

Search:

Site | Archives | Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | A | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserv
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

7/30/2008

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: June 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,740,012	1,519,318	7,148,774	6,517,734	14,225,457	13,410,823
2. Commercial Sales.....	1,138,053	1,101,937	5,072,349	4,938,954	10,355,334	10,055,049
3. Industrial Sales.....	380,191	415,150	1,755,318	1,741,612	3,690,703	3,478,301
4. Other Sales.....	699,185	751,365	3,206,492	3,036,566	6,675,609	6,079,340
5. Total Operating Revenues (Item 1-4).....	3,957,442	3,787,770	17,182,933	16,234,866	34,947,103	33,023,513
Operating Expenses						
6. Source of Supply Expense.....	12,437	6,222	74,659	79,344	187,487	212,282
7. Pumping and Water Treatment Expense.....	463,335	435,908	2,431,932	2,157,105	5,154,552	4,235,557
8. Transmission and Distribution-Operation.....	57,993	56,067	357,941	393,152	724,905	722,878
9. Transmission and Distribution-Maintenance.....	110,758	100,348	845,877	713,716	1,586,366	1,327,884
10. Customer Accounts and Sales Expense.....	110,299	153,807	785,346	812,070	1,709,542	1,714,441
11. Administrative and General Expense.....	927,141	1,069,901	5,430,948	5,178,633	11,222,224	10,532,804
12. Depreciation and Amortization.....	392,645	358,070	2,265,154	2,123,805	4,595,410	4,137,702
13. Taxes Other Than Income Taxes.....	306,716	291,929	1,926,822	1,739,153	3,853,423	3,466,735
14. Income Taxes.....	540,474	437,732	537,791	633,919	885,253	2,198,691
15. Total Operating Expenses (Item 6-14).....	2,921,797	2,909,984	14,656,470	13,830,897	29,919,162	28,548,974
16. Net Operating Income (Item 5 less 15).....	1,035,645	877,786	2,526,463	2,403,969	5,027,941	4,474,539
17. Other Income.....	66,315	1,046	71,248	6,625	68,972	(1,620)
18. Miscellaneous Income Deductions.....	28,191	6,150	43,283	19,849	52,291	33,254
19. Interest Charges.....	372,043	291,963	1,924,373	1,591,378	3,642,089	3,022,373
20. Net Income.....	701,727	580,719	630,055	799,367	1,402,533	1,417,292
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	192,838,206	177,013,297	186,090,519	169,461,998		
22. Construction Work in Progress.....	2,730,672	1,136,656	2,146,933	3,234,868		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	55,705,683	51,354,529	53,656,710	50,176,392		
26. Materials and Supplies.....	311,007	300,509	327,468	301,925		
27. Unamortized Investment Credit.....	1,154,448	1,230,819	1,189,450	1,272,185		
28. Deferred Income Tax.....	18,643,485	17,870,833	17,838,344	17,178,479		
29. Contributions in Aid of Construction.....	8,285,789	7,263,938	7,851,744	7,016,102		
30. Customer Advances for Construction.....	5,985,705	4,732,027	5,550,903	4,575,543		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,725	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	6,830,535	4,788,768		
34. Retained Earnings.....	20,103,503	19,837,921	19,749,907	19,577,572		
35. Long Term Debt.....(1).....	53,802,292	39,932,230	44,628,977	40,256,852		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$189,391,155	\$184,500,019
3	Plant Under Construction	1,948,397	2,146,933
4	Property Held For Future Use	0	0
5	Materials and Supplies	314,770	327,468
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	168
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	194,630,027	189,950,293
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	54,760,097	53,656,710
16	Accumulated Deferred Income Taxes	18,223,713	17,838,344
17	Unamortized Investment Credit - Pre 1971	39,928	40,702
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,252,545	7,851,744
21	Customer Advances for Construction	5,865,090	5,550,903
22	All Other A/	(271,106)	(261,914)
23			
24			
25			
26	Total Deductions	86,870,267	84,676,489
27			
28	Rate Base	\$107,759,760	\$105,273,804
29			
30	Net Operating Income	\$1,035,645	\$5,027,941
31	Adjustments to NOI		
32	Allowance for funds used during construction	7,576	162,853
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,226	141,673
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$1,055,447	\$5,332,467
40			
41			
42	Rate of return B/	11.75%	5.07%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(365,823)
	(\$271,106)	(\$261,914)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

August 29, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$242,775
	(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,016	5,382	23	183	69,604
37. 3/4"	139	137	2	12	290
38. 1"	301	1,402	25	150	1,878
39. 1 1/2"	22	332	7	71	432
40. 2"	13	1,042	84	298	1,437
41. 3"		53		4	57
42. 4"&Over		30	27	41	98
43. Totals	64,491	8,378	168	737	73,796

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 9-04-07, 20__

(Signed) Michael A. Melle
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

15

Company Name: Tennessee-American Water Co.
Month of Report: May 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,149,546	918,272	4,259,216	4,998,416	14,004,764	13,117,911
2. Commercial Sales.....	829,051	774,903	3,105,244	3,837,017	10,319,217	9,922,968
3. Industrial Sales.....	259,654	237,347	1,115,472	1,326,462	3,725,661	3,371,426
4. Other Sales.....	561,584	434,058	1,945,722	2,285,201	6,727,788	5,834,238
5. Total Operating Revenues (Item 1-4).....	2,799,836	2,364,580	10,425,654	12,447,096	34,777,430	32,246,543
Operating Expenses						
6. Source of Supply Expense.....	17,103	13,149	45,118	73,122	181,272	226,246
7. Pumping and Water Treatment Expense.....	417,545	379,858	1,551,053	1,721,197	5,127,125	4,162,299
8. Transmission and Distribution-Operation.....	53,282	67,953	246,666	337,085	722,979	747,781
9. Transmission and Distribution-Maintenance.....	130,463	132,033	604,656	613,368	1,575,955	1,366,041
10. Customer Accounts and Sales Expense.....	223,430	159,387	451,618	658,263	1,753,051	1,701,402
11. Administrative and General Expense.....	1,022,785	742,963	3,481,022	4,108,732	11,364,983	10,097,055
12. Depreciation and Amortization.....	392,356	352,893	1,480,154	1,765,735	4,560,836	4,103,186
13. Taxes Other Than Income Taxes.....	309,924	292,871	1,310,182	1,447,225	3,838,636	3,460,968
14. Income Taxes.....	(34,097)	(11,546)	31,414	196,187	782,511	2,099,528
15. Total Operating Expenses (Item 6-14).....	2,532,791	2,129,561	9,201,883	10,920,914	29,907,348	27,964,506
16. Net Operating Income (Item 5 less 15).....	267,044	235,019	1,223,771	1,526,182	4,870,082	4,282,037
17. Other Income.....	(2,128)	5,849	7,061	5,580	3,703	711
18. Miscellaneous Income Deductions.....	7,577	(285)	7,515	13,700	30,250	24,816
19. Interest Charges.....	318,425	264,208	1,233,905	1,299,416	3,562,009	2,988,462
20. Net Income.....	(61,085)	(23,055)	(10,588)	218,646	1,281,526	1,269,470
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	192,508,675	174,710,232	184,771,777	168,004,178		
22. Construction Work in Progress.....	1,878,222	1,967,829	2,014,098	3,642,050		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	55,307,243	51,112,691	53,294,114	49,956,258		
26. Materials and Supplies.....	365,883	292,350	326,593	302,094		
27. Unamortized Investment Credit.....	1,160,812	1,313,551	1,195,814	1,278,549		
28. Deferred Income Tax.....	18,526,657	17,577,531	17,773,957	17,090,748		
29. Contributions in Aid of Construction.....	8,280,380	7,252,770	7,766,590	6,967,779		
30. Customer Advances for Construction.....	5,959,523	4,851,103	5,446,430	4,474,805		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,767	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	6,538,856	4,788,768		
34. Retained Earnings.....	19,399,957	19,263,043	19,727,776	19,553,642		
35. Long Term Debt.....(1).....	53,812,199	39,939,875	43,473,138	40,265,837		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$189,019,845	\$183,181,277
3	Plant Under Construction	1,791,942	2,014,098
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	~~315,522~~	~~326,593~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	281
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	194,103,014	188,497,954
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	54,570,980	53,294,114
16	Accumulated Deferred Income Taxes	18,139,759	17,773,957
17	Unamortized Investment Credit - Pre 1971	40,057	40,960
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,245,897	7,766,590
21	Customer Advances for Construction	5,840,967	5,446,430
22	All Other A/	(267,091)	(266,860)
23			
24			
25			
26	Total Deductions	86,570,569	84,055,191
27			
28	Rate Base	\$107,532,445	\$104,442,763
29			
30	Net Operating Income	\$267,044	\$4,870,082
31	Adjustments to NOI		
32	Allowance for funds used during construction	10,122	155,194
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,201	139,432
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$289,367	\$5,164,708
40			
41			
42	Rate of return B/	3.23%	4.95%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(370,769)
	(\$267,091)	(\$266,860)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

July 17, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$257,177

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,959	5,372	23	182	69,370
37. 3/4"	138	138	2	14	279
38. 1"	298	1,399	25	150	1,844
39. 1 1/2"	22	332	7	71	432
40. 2"	13	1,043	84	298	1,429
41. 3"		49		4	44
42. 4"&Over		28	28	41	96
43. Totals	64,430	8,361	169	760	73,494

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 7/27, 20 07

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: April 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,212,792	1,161,101	4,259,216	4,080,144	13,773,489	13,383,658
2. Commercial Sales.....	867,267	759,214	3,105,244	3,062,114	10,265,069	10,016,167
3. Industrial Sales.....	306,391	311,966	1,115,472	1,089,114	3,703,354	3,428,062
4. Other Sales.....	543,243	533,983	1,945,722	1,851,142	6,600,262	5,931,814
5. Total Operating Revenues (Item 1-4).....	2,929,694	2,766,264	10,425,654	10,082,514	34,342,174	32,759,701
Operating Expenses						
6. Source of Supply Expense.....	8,283	11,847	45,118	59,973	177,317	224,209
7. Pumping and Water Treatment Expense.....	404,060	334,061	1,551,053	1,341,339	5,089,439	4,103,888
8. Transmission and Distribution-Operation.....	48,803	58,462	246,666	269,132	737,650	723,130
9. Transmission and Distribution-Maintenance.....	106,596	104,030	604,656	481,335	1,577,526	1,334,294
10. Customer Accounts and Sales Expense.....	89,051	151,356	451,618	498,876	1,689,008	1,665,574
11. Administrative and General Expense.....	922,610	892,637	3,481,022	3,365,769	11,085,161	10,157,242
12. Depreciation and Amortization.....	391,987	351,977	1,480,154	1,412,842	4,521,373	4,074,761
13. Taxes Other Than Income Taxes.....	305,419	311,476	1,310,182	1,154,354	3,821,583	3,335,657
14. Income Taxes.....	154,362	131,597	31,414	207,734	805,062	2,432,321
15. Total Operating Expenses (Item 6-14).....	2,431,171	2,347,443	9,201,883	8,791,354	29,504,119	28,051,076
16. Net Operating Income (Item 5 less 15).....	498,523	418,821	1,223,771	1,291,160	4,838,055	4,708,625
17. Other Income.....	(969)	(1,818)	7,061	(269)	11,680	(10,401)
18. Miscellaneous Income Deductions.....	12	(5,333)	7,515	13,985	22,388	23,462
19. Interest Charges.....	314,905	263,897	1,233,905	1,035,208	3,507,793	2,970,589
20. Net Income.....	182,637	158,439	(10,588)	241,698	1,319,554	1,704,173
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	192,248,713	173,842,759	183,288,573	166,708,954		
22. Construction Work in Progress.....	930,414	2,172,690	2,021,566	3,954,438		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	54,897,149	50,837,252	52,944,568	49,735,350		
26. Materials and Supplies.....	341,950	273,360	320,465	302,829		
27. Unamortized Investment Credit.....	1,167,176	1,243,547	1,208,543	1,278,549		
28. Deferred Income Tax.....	18,509,031	17,314,515	17,694,863	17,009,860		
29. Contributions in Aid of Construction.....	8,236,196	7,238,490	7,680,956	6,919,221		
30. Customer Advances for Construction.....	5,911,187	4,866,318	5,354,062	4,379,357		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,808	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	6,247,177	4,788,768		
34. Retained Earnings.....	19,456,682	19,285,736	19,716,366	19,581,878		
35. Long Term Debt.....(1).....	53,822,029	39,948,818	42,317,111	40,542,996		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$188,545,263	\$181,698,073
3	Plant Under Construction	1,770,372	2,021,566
4	Property Held For Future Use	0	0
5	Materials and Supplies	302,932	320,465
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	421
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	193,594,272	187,016,230
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	54,386,914	52,944,568
16	Accumulated Deferred Income Taxes	18,043,034	17,694,863
17	Unamortized Investment Credit - Pre 1971	40,186	41,218
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,237,276	7,680,956
21	Customer Advances for Construction	5,811,328	5,354,062
22	All Other A/	(263,597)	(271,807)
23			
24			
25			
26	Total Deductions	86,255,141	83,443,860
27			
28	Rate Base	\$107,339,131	\$103,572,370
29			
30	Net Operating Income	\$498,523	\$4,838,055
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,440	151,192
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,178	138,312
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$520,140	\$5,127,559
40			
41			
42	Rate of return B/	5.81%	4.95%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(375,716)
	(\$263,597)	(\$271,807)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

May 22, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – April 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$271,579

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,774	5,391	23	182	69,370
37. 3/4"	132	133	2	12	279
38. 1"	288	1,382	25	149	1,844
39. 1 1/2"	22	332	7	71	432
40. 2"	13	1,037	86	293	1,429
41. 3"		40		4	44
42. 4"&Over		29	28	39	96
43. Totals	64,229	8,344	171	750	73,494

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 6/06, 20 07

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: February 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	966,123	967,025	2,018,993	1,996,007	13,617,403	13,269,659
2. Commercial Sales.....	714,781	736,526	1,429,261	1,507,348	10,143,852	10,027,236
3. Industrial Sales.....	280,876	269,173	524,840	539,942	3,661,894	3,372,580
4. Other Sales.....	468,359	427,061	907,286	828,418	6,584,550	5,936,250
5. Total Operating Revenues (Item 1-4).....	2,430,139	2,399,786	4,880,380	4,871,715	34,007,699	32,605,725
Operating Expenses						
6. Source of Supply Expense.....	12,718	21,783	25,550	38,986	178,736	223,700
7. Pumping and Water Treatment Expense.....	377,083	315,267	758,716	657,647	4,980,795	4,006,407
8. Transmission and Distribution-Operation.....	71,886	58,796	138,733	156,564	742,285	718,757
9. Transmission and Distribution-Maintenance.....	239,160	110,458	382,774	287,767	1,549,211	1,374,931
10. Customer Accounts and Sales Expense.....	125,329	110,557	233,894	224,545	1,745,615	1,618,037
11. Administrative and General Expense.....	856,767	981,285	1,791,577	1,565,242	11,196,243	10,247,154
12. Depreciation and Amortization.....	360,683	356,597	723,086	709,114	4,468,033	3,927,848
13. Taxes Other Than Income Taxes.....	296,069	247,883	601,440	563,729	3,703,466	2,876,394
14. Income Taxes.....	(89,092)	(25,549)	(161,530)	68,278	751,574	2,655,336
15. Total Operating Expenses (Item 6-14).....	2,250,602	2,177,077	4,494,240	4,271,872	29,315,958	27,648,564
16. Net Operating Income (Item 5 less 15).....	179,536	222,709	386,140	599,843	4,691,741	4,957,161
17. Other Income.....	467	(134)	7,457	940	10,866	(7,343)
18. Miscellaneous Income Deductions.....	890	10,045	4,303	10,337	22,823	24,197
19. Interest Charges.....	303,975	252,855	609,016	510,286	3,407,824	2,927,097
20. Net Income.....	(124,862)	(40,325)	(219,722)	80,160	1,271,960	1,998,524
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	188,872,625	175,107,190	180,369,713	164,157,908		
22. Construction Work in Progress.....	2,219,487	369,821	2,065,468	4,580,817		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	54,241,236	50,384,396	52,294,314	49,263,284		
26. Materials and Supplies.....	305,137	303,442	315,554	313,740		
27. Unamortized Investment Credit.....	1,179,904	1,256,275	1,221,271	1,291,277		
28. Deferred Income Tax.....	17,602,962	17,386,103	17,499,178	16,855,723		
29. Contributions in Aid of Construction.....	8,239,059	7,118,946	7,514,232	6,815,226		
30. Customer Advances for Construction.....	5,649,193	4,977,428	5,172,050	4,196,729		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,892	1,385,017		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	5,663,818	4,788,768		
34. Retained Earnings.....	19,236,497	19,123,548	19,690,248	19,578,156		
35. Long Term Debt.....(1).....	54,861,457	39,966,494	41,161,010	41,093,990		

(1) Includes Capital Lease

April 9, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$129,003

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,464	5,358	23	182	69,027
37. 3/4"	123	132	2	12	269
38. 1"	273	1,361	25	147	1,806
39. 1 1/2"	21	329	7	70	427
40. 2"	15	1,026	85	290	1,416
41. 3"		35		4	39
42. 4"&Over		29	29	37	95
43. Totals	63,896	8,270	171	742	73,079

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

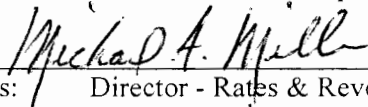
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 2/28, 20 07

(Signed)

Title and Address:


Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: March 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,027,431	923,036	3,046,424	2,919,043	13,721,799	13,273,293
2. Commercial Sales.....	808,716	795,552	2,237,977	2,302,901	10,157,015	10,003,102
3. Industrial Sales.....	284,242	237,206	809,081	777,148	3,708,929	3,315,403
4. Other Sales.....	495,193	488,742	1,402,479	1,317,160	6,591,001	5,853,230
5. Total Operating Revenues (Item 1-4).....	2,615,581	2,444,536	7,495,961	7,316,252	34,178,744	32,445,028
Operating Expenses						
6. Source of Supply Expense.....	11,285	9,141	36,835	48,127	180,881	218,067
7. Pumping and Water Treatment Expense.....	388,277	349,632	1,146,993	1,007,279	5,019,440	4,051,337
8. Transmission and Distribution-Operation.....	59,129	54,105	197,863	210,669	747,309	716,579
9. Transmission and Distribution-Maintenance.....	115,286	89,538	498,060	377,304	1,574,960	1,351,922
10. Customer Accounts and Sales Expense.....	128,672	122,974	362,567	347,520	1,751,313	1,644,590
11. Administrative and General Expense.....	766,835	907,890	2,558,412	2,473,132	11,055,189	10,297,734
12. Depreciation and Amortization.....	365,080	351,751	1,088,166	1,060,865	4,481,362	4,046,385
13. Taxes Other Than Income Taxes.....	403,323	279,149	1,004,763	842,878	3,827,640	3,317,681
14. Income Taxes.....	38,582	7,859	(122,948)	76,137	782,297	2,293,372
15. Total Operating Expenses (Item 6-14).....	2,276,471	2,172,039	6,770,711	6,443,911	29,420,391	27,937,667
16. Net Operating Income (Item 5 less 15).....	339,110	272,497	725,250	872,341	4,758,353	4,507,361
17. Other Income.....	572	608	8,029	1,548	10,831	(11,698)
18. Miscellaneous Income Deductions.....	3,200	8,981	7,503	19,318	17,043	30,093
19. Interest Charges.....	309,985	261,024	919,001	771,311	3,456,785	2,947,102
20. Net Income.....	26,497	3,101	(193,225)	83,260	1,295,356	1,518,468
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	190,986,422	174,366,052	181,754,744	165,466,808		
22. Construction Work in Progress.....	1,578,516	863,075	2,125,089	4,232,059		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.(1).....	54,492,688	50,749,532	52,606,244	49,509,548		
26. Materials and Supplies.....	291,867	301,519	314,749	308,781		
27. Unamortized Investment Credit.....	1,173,540	1,249,911	1,214,907	1,284,913		
28. Deferred Income Tax.....	18,464,214	17,310,512	17,595,320	16,929,706		
29. Contributions in Aid of Construction.....	8,234,959	7,231,973	7,597,814	6,867,407		
30. Customer Advances for Construction.....	5,996,469	4,857,189	5,266,989	4,287,866		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,850	1,383,558		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	5,955,498	4,788,768		
34. Retained Earnings.....	19,270,362	19,127,888	19,702,121	19,572,774		
35. Long Term Debt.....(1).....	39,957,691	39,957,691	41,161,010	40,818,553		

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY
SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

Page 2

FOR THE MONTH ENDED MARCH 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$187,840,946	\$180,164,244
3	Plant Under Construction	2,050,358	2,125,089
4	Property Held For Future Use	0	0
5	Materials and Supplies	289,926	314,749
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	589
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	193,156,935	185,580,376
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	54,216,836	52,606,244
16	Accumulated Deferred Income Taxes	17,887,702	17,595,320
17	Unamortized Investment Credit - Pre 1971	40,315	41,476
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,237,636	7,597,814
21	Customer Advances for Construction	5,778,042	5,266,989
22	All Other A/	(261,653)	(276,754)
23			
24			
25			
26	Total Deductions	85,898,878	82,831,089
27			
28	Rate Base	\$107,258,057	\$102,749,287
29			
30	Net Operating Income	\$339,110	\$4,758,353
31	Adjustments to NOI		
32	Allowance for funds used during construction	13,124	146,920
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,169	137,210
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$364,404	\$5,042,483
40			
41			
42	Rate of return B/	4.08%	4.91%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF, FIT & SIT	(336,142)	(380,663)
	(\$261,653)	(\$276,754)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

May 17, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$158,421
	(including associated insurance & taxes) .	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,627	5,376	23	182	69,208
37. 3/4"	125	133	2	12	272
38. 1"	276	1,373	25	147	1,821
39. 1 1/2"	21	329	7	71	428
40. 2"	15	1,031	85	289	1,420
41. 3"		34		4	38
42. 4"&Over		29	29	38	96
43. Totals	64,064	8,305	171	743	73,283

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: May 22, 20 07

(Signed) Michael A. Melle
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: January 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,052,870	1,028,982	1,052,870	1,028,982	13,618,306	13,159,586
2. Commercial Sales.....	714,480	770,822	714,480	770,822	10,165,597	9,908,843
3. Industrial Sales.....	243,964	270,769	243,964	270,769	3,650,192	3,315,789
4. Other Sales.....	438,927	401,357	438,927	401,357	6,543,252	5,936,232
5. Total Operating Revenues (Item 1-4).....	2,450,241	2,471,929	2,450,241	2,471,930	33,977,347	32,320,450
Operating Expenses						
6. Source of Supply Expense.....	12,832	17,203	12,832	17,203	187,801	226,908
7. Pumping and Water Treatment Expense.....	381,634	342,380	381,634	342,380	4,918,979	3,970,075
8. Transmission and Distribution-Operation.....	66,847	97,768	66,847	97,768	729,195	730,970
9. Transmission and Distribution-Maintenance.....	143,614	177,309	143,614	177,309	1,420,509	1,355,490
10. Customer Accounts and Sales Expense.....	108,565	113,988	108,565	113,988	1,730,844	1,666,465
11. Administrative and General Expense.....	934,809	583,957	934,809	583,957	11,320,761	10,056,801
12. Depreciation and Amortization.....	362,403	352,517	362,403	352,517	4,463,946	4,010,381
13. Taxes Other Than Income Taxes.....	305,371	315,846	305,371	315,846	3,655,280	2,920,108
14. Income Taxes.....	(72,438)	93,826	(72,438)	93,826	815,118	2,575,563
15. Total Operating Expenses (Item 6-14).....	2,243,638	2,094,794	2,243,637	2,094,794	29,242,433	27,512,761
16. Net Operating Income (Item 5 less 15).....	206,604	377,135	206,604	377,136	4,734,914	4,807,689
17. Other Income.....	6,990	1,074	6,990	1,074	10,266	(3,704)
18. Miscellaneous Income Deductions.....	3,413	292	3,413	292	31,978	14,594
19. Interest Charges.....	305,041	257,431	305,041	257,431	3,356,705	2,912,105
20. Net Income.....	(94,860)	120,486	(94,860)	120,487	1,356,497	1,877,286
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	188,435,291	173,943,115	179,222,593	162,758,391		
22. Construction Work in Progress.....	2,353,071	2,018,206	1,911,330	4,915,656		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort. (1).....	53,916,586	50,019,258	51,972,911	49,180,262		
26. Materials and Supplies.....	272,775	303,617	315,412	326,490		
27. Unamortized Investment Credit.....	1,186,268	1,262,639	1,227,635	1,297,641		
28. Deferred Income Tax.....	17,595,928	17,481,935	17,481,106	16,651,895		
29. Contributions in Aid of Construction.....	8,238,889	7,118,994	7,420,889	6,763,962		
30. Customer Advances for Construction.....	5,688,465	5,006,286	5,116,069	4,084,256		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,933	1,386,475		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	5,372,139	4,788,768		
34. Retained Earnings.....	19,351,690	19,163,300	19,680,835	19,598,637		
35. Long Term Debt.....(1).....	39,871,057	43,277,632	39,919,764	41,369,312		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JANUARY 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions		
2	Plant in Service	\$187,099,395	\$177,632,093
3	Plant Under Construction	1,966,746	1,911,330
4	Property Held For Future Use	0	0
5	Materials and Supplies	282,463	315,412
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	1,007
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	192,324,309	182,835,547
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	53,658,291	51,972,911
16	Accumulated Deferred Income Taxes	17,567,407	17,481,106
17	Unamortized Investment Credit - Pre 1971	40,702	41,992
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,249,860	7,420,889
21	Customer Advances for Construction	5,683,346	5,116,069
22	All Other A/	(179,282)	(286,647)
23			
24			
25			
26	Total Deductions	85,040,324	81,746,320
27			
28	Rate Base	\$107,283,985	\$101,089,227
29			
30	Net Operating Income	\$206,604	\$4,734,914
31	Adjustments to NOI		
32	Allowance for funds used during construction	11,512	131,702
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	12,172	135,060
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$230,288	\$5,001,676
40			
41			
42	Rate of return B/	2.58%	4.95%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF, FIT & SIT	(365,823)	(390,556)
	(\$179,282)	(\$286,647)

B/ Rate of return - Monthly $(L25 / L18) \times 12$

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,364	5,355	23	184	68,926
37. 3/4"	123	133	2	12	270
38. 1"	274	1,357	25	147	1,803
39. 1 1/2"	20	328	7	70	425
40. 2"	15	1,021	85	290	1,411
41. 3"		33		4	37
42. 4"&Over		30	29	36	95
43. Totals	63,796	8,257	171	743	72,967

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4-13-, 20 07

(Signed)

Title and Address:

Michael P. A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: December 2006

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	992,783	1,207,467	13,594,417	13,213,682	13,594,417	13,213,682
2. Commercial Sales.....	768,357	912,734	10,221,939	9,895,304	10,221,939	9,895,304
3. Industrial Sales.....	289,121	377,045	3,676,996	3,309,689	3,676,996	3,309,689
4. Other Sales.....	525,135	476,378	6,505,682	6,063,473	6,505,682	6,063,473
5. Total Operating Revenues (Item 1-4).....	2,575,397	2,973,625	33,999,034	32,482,148	33,999,034	32,482,148
Operating Expenses						
6. Source of Supply Expense.....	11,314	14,120	192,172	219,943	192,172	219,943
7. Pumping and Water Treatment Expense.....	343,248	369,726	4,879,725	3,836,347	4,879,725	3,836,347
8. Transmission and Distribution-Operation.....	56,030	64,342	760,116	709,555	760,116	709,555
9. Transmission and Distribution-Maintenance.....	177,799	84,452	1,454,204	1,269,126	1,454,204	1,269,126
10. Customer Accounts and Sales Expense.....	126,450	180,771	1,736,266	1,666,401	1,736,266	1,666,401
11. Administrative and General Expense.....	1,209,801	1,314,003	10,969,909	10,171,620	10,969,909	10,171,620
12. Depreciation and Amortization.....	366,136	358,857	4,454,061	3,939,761	4,454,061	3,939,761
13. Taxes Other Than Income Taxes.....	286,185	352,337	3,665,755	2,922,584	3,665,755	2,922,584
14. Income Taxes.....	231,089	569,202	981,382	2,731,709	981,382	2,731,709
15. Total Operating Expenses (Item 6-14).....	2,808,052	3,307,808	29,093,590	27,467,046	29,093,590	27,467,046
16. Net Operating Income (Item 5 less 15).....	(232,655)	(334,183)	4,905,444	5,015,102	4,905,444	5,015,102
17. Other Income.....	(1,863)	(1,391)	4,350	(21,652)	4,350	(21,652)
18. Miscellaneous Income Deductions.....	2,996	(918)	28,857	14,189	28,857	14,189
19. Interest Charges.....	309,650	261,449	3,309,095	2,894,038	3,309,095	2,894,038
20. Net Income.....	(547,163)	(596,105)	1,571,842	2,085,223	1,571,842	2,085,223
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	188,944,500	173,947,962	178,014,912	161,434,828		
22. Construction Work in Progress.....	1,580,421	1,022,155	1,883,424	5,083,737		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	53,399,996	49,655,974	51,648,133	49,094,339		
26. Materials and Supplies.....	292,151	297,113	317,983	336,223		
27. Unamortized Investment Credit.....	1,192,632	1,269,003	1,234,000	1,304,005		
28. Deferred Income Tax.....	17,578,886	17,462,754	17,471,607	16,427,636		
29. Contributions in Aid of Construction.....	8,260,830	7,059,987	7,327,564	6,707,041		
30. Customer Advances for Construction.....	5,678,228	5,191,657	5,059,221	3,974,887		
31. Preferred Stock.....	1,381,100	1,382,100	1,381,975	1,387,933		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	5,080,460	4,788,768		
34. Retained Earnings.....	19,440,795	19,045,502	19,665,136	19,628,776		
35. Long Term Debt.....(1).....	39,880,582	39,985,954	40,203,645	41,369,312		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED DECEMBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$176,424,412	\$176,424,412
3	Plant Under Construction	1,883,424	1,883,424
4	Property Held For Future Use	0	0
5	Materials and Supplies	317,983	317,983
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,255	1,255
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	181,602,779	181,602,779
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	51,648,133	51,648,134
16	Accumulated Deferred Income Taxes	17,471,607	17,471,607
17	Unamortized Investment Credit - Pre 1971	42,250	42,250
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,327,564	7,327,564
21	Customer Advances for Construction	5,059,221	5,059,221
22	All Other A/	(241,784)	(241,784)
23			
24			
25			
26	Total Deductions	81,306,991	81,306,992
27			
28	Rate Base	\$100,295,788	\$100,295,787
29			
30	Net Operating Income	(\$232,655)	\$4,905,444
31	Adjustments to NOI		
32	Allowance for funds used during construction	18,032	123,261
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,379	133,986
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	(\$203,244)	\$5,162,691
40			
41			
42	Rate of return B/	-2.43%	5.15%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(345,693)	(345,693)
	(\$241,784)	(\$241,784)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,143	5,356	24	188	68,711
37. 3/4"	118	133	1	12	264
38. 1"	273	1,349	25	141	1,788
39. 1 1/2"	17	313	7	68	405
40. 2"	12	966	79	276	1,333
41. 3"		35		4	39
42. 4"&Over		29	31	34	94
43. Totals	63,563	8,181	167	723	72,634

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Feb. 21, 20 07

(Signed)

Michael A. Miller

Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

February 9, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$70,169
	(including associated insurance & taxes)	

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: November 2006

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,254,177	1,087,922	12,601,634	12,006,215	13,809,101	13,364,033
2. Commercial Sales.....	946,770	832,538	9,453,581	8,982,570	10,366,316	10,106,889
3. Industrial Sales.....	303,222	285,478	3,387,875	2,932,644	3,764,920	3,249,666
4. Other Sales.....	691,656	489,576	5,980,547	5,587,095	6,456,925	6,221,475
5. Total Operating Revenues (Item 1-4).....	3,195,825	2,695,513	31,423,637	29,508,524	34,397,262	32,942,063
Operating Expenses						
6. Source of Supply Expense.....	24,039	4,317	180,858	205,824	194,977	175,512
7. Pumping and Water Treatment Expense.....	399,818	308,207	4,536,477	3,466,621	4,906,203	3,835,031
8. Transmission and Distribution-Operation.....	65,556	59,558	704,086	645,213	768,428	697,753
9. Transmission and Distribution-Maintenance.....	90,649	107,328	1,276,405	1,184,675	1,360,857	1,273,049
10. Customer Accounts and Sales Expense.....	230,706	153,767	1,609,816	1,485,631	1,790,587	1,588,507
11. Administrative and General Expense.....	1,050,744	845,543	9,760,107	8,857,618	11,074,110	10,045,472
12. Depreciation and Amortization.....	350,489	339,024	4,087,926	3,580,905	4,446,782	3,852,617
13. Taxes Other Than Income Taxes.....	299,365	272,626	3,379,570	2,570,247	3,731,907	2,865,732
14. Income Taxes.....	104,162	164,569	750,292	2,162,506	1,319,495	2,554,307
15. Total Operating Expenses (Item 6-14).....	2,615,527	2,254,941	26,285,537	24,159,240	29,593,346	26,887,980
16. Net Operating Income (Item 5 less 15).....	580,298	440,572	5,138,100	5,349,284	4,803,916	6,054,083
17. Other Income.....	1,237	(7,108)	6,213	(20,262)	4,822	(4,715)
18. Miscellaneous Income Deductions.....	(481)	2,807	25,862	15,107	24,944	15,670
19. Interest Charges.....	292,716	239,807	2,999,445	2,632,589	3,260,894	2,871,848
20. Net Income.....	289,299	190,850	2,119,006	2,681,326	1,522,900	3,161,850
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	181,434,793	163,986,139	176,765,200	160,093,679		
22. Construction Work in Progress.....	3,469,458	6,626,502	1,836,902	5,287,939		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	52,960,183	50,169,090	51,336,132	49,015,245		
26. Materials and Supplies.....	646,621	304,853	318,396	345,159		
27. Unamortized Investment Credit.....	1,198,996	1,275,367	1,240,364	1,310,369		
28. Deferred Income Tax.....	17,291,002	16,749,434	17,461,929	16,162,392		
29. Contributions in Aid of Construction.....	7,312,160	6,871,208	7,227,494	6,653,648		
30. Customer Advances for Construction.....	5,409,523	4,827,735	5,018,673	3,837,974		
31. Preferred Stock.....	1,381,600	1,382,100	1,382,058	1,389,392		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,918	4,788,768	4,788,781	4,788,768		
34. Retained Earnings.....	20,663,222	20,214,123	19,632,195	19,641,155		
35. Long Term Debt.....(1).....	39,890,031	39,994,552	40,212,426	41,644,224		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED NOVEMBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$175,430,813	\$175,174,700
3	Plant Under Construction	1,910,970	1,836,902
4	Property Held For Future Use	0	0
5	Materials and Supplies	320,331	318,396
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,370	1,532
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	180,639,189	180,307,235
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	51,488,873	51,336,132
16	Accumulated Deferred Income Taxes	17,461,854	17,461,929
17	Unamortized Investment Credit - Pre 1971	42,379	42,508
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,242,722	7,227,494
21	Customer Advances for Construction	5,002,947	5,018,673
22	All Other A/	(261,104)	(246,485)
23			
24			
25			
26	Total Deductions	80,977,671	80,840,251
27			
28	Rate Base	\$99,661,518	\$99,466,984
29			
30	Net Operating Income	\$580,298	\$4,803,916
31	Adjustments to NOI		
32	Allowance for funds used during construction	24,004	150,312
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,307	133,080
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$615,609	\$5,087,308
40			
41			
42	Rate of return B/	7.41%	5.11%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	34,298	53,825
Unpaid for materials and supplies	51,159	50,084
Taxes on CIAC-DEF, FIT & SIT	(346,561)	(350,394)
	(\$261,104)	(\$246,485)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

January 24, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$40,752
	(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,269	5,381	24	188	68,862
37. 3/4"	123	131	2	12	268
38. 1"	283	1,358	25	144	1,810
39. 1 1/2"	20	329	7	70	426
40. 2"	15	1,023	86	289	1,413
41. 3"		37		4	41
42. 4"&Over		29	31	36	96
43. Totals	63,710	8,288	175	743	72,916 _y

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

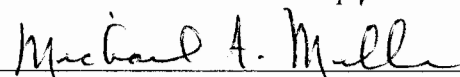
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 2-2, 20 07

(Signed)

Title and Address:



Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: October 2006

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	936,497	1,166,297	11,347,456	10,918,293	13,642,845	13,107,247
2. Commercial Sales.....	757,765	853,046	8,506,812	8,150,032	10,252,084	9,853,520
3. Industrial Sales.....	316,038	309,161	3,084,653	2,647,166	3,747,176	3,166,576
4. Other Sales.....	453,372	479,146	5,288,892	5,097,519	6,254,845	6,295,559
5. Total Operating Revenues (Item 1-4).....	2,463,671	2,807,650	28,227,813	26,813,010	33,896,950	32,422,902
Operating Expenses						
6. Source of Supply Expense.....	2,912	44,003	156,819	201,507	175,256	177,414
7. Pumping and Water Treatment Expense.....	367,723	295,667	4,136,659	3,158,414	4,814,592	3,829,537
8. Transmission and Distribution-Operation.....	52,225	46,810	638,530	585,654	762,431	697,251
9. Transmission and Distribution-Maintenance.....	99,580	120,377	1,185,757	1,077,347	1,377,536	1,234,400
10. Customer Accounts and Sales Expense.....	161,805	192,031	1,379,110	1,331,864	1,713,648	1,518,458
11. Administrative and General Expense.....	944,618	791,752	8,709,364	8,012,074	10,868,910	9,902,367
12. Depreciation and Amortization.....	351,938	334,514	3,737,436	3,241,880	4,435,317	3,803,267
13. Taxes Other Than Income Taxes.....	326,544	276,085	3,080,205	2,297,621	3,705,168	2,888,694
14. Income Taxes.....	(284,796)	211,104	646,130	1,997,937	1,379,902	2,453,438
15. Total Operating Expenses (Item 6-14).....	2,022,549	2,312,342	23,670,010	21,904,298	29,232,760	26,504,826
16. Net Operating Income (Item 5 less 15).....	441,123	495,308	4,557,803	4,908,712	4,664,190	5,918,076
17. Other Income.....	(3,470)	1,752	4,976	(13,153)	(3,523)	3,898
18. Miscellaneous Income Deductions.....	5,188	(1,470)	26,343	12,300	28,232	12,407
19. Interest Charges.....	281,211	240,784	2,706,729	2,392,782	3,207,985	2,867,013
20. Net Income.....	151,255	257,745	1,829,707	2,490,477	1,424,450	3,042,554
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	181,125,770	163,693,851	175,311,146	159,325,622		
22. Construction Work in Progress.....	3,023,591	5,542,090	2,099,989	5,181,658		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	52,762,903	49,916,858	51,103,540	48,881,541		
26. Materials and Supplies.....	273,964	327,956	289,915	352,870		
27. Unamortized Investment Credit.....	1,205,360	1,281,731	1,246,728	1,316,733		
28. Deferred Income Tax.....	17,222,957	16,665,821	17,416,798	15,906,267		
29. Contributions in Aid of Construction.....	7,287,070	6,877,444	7,190,748	6,591,244		
30. Customer Advances for Construction.....	5,411,118	4,275,205	4,970,191	3,717,558		
31. Preferred Stock.....	1,382,100	1,382,100	1,382,100	1,390,850		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,788,768		
34. Retained Earnings.....	20,355,677	19,998,063	19,594,770	19,584,566		
35. Long Term Debt.....(1).....	39,899,407	40,003,839	40,221,136	41,919,020		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED OCTOBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$174,989,465	\$173,720,646
3	Plant Under Construction	1,755,121	2,099,989
4	Property Held For Future Use	0	0
5	Materials and Supplies	287,702	289,915
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,507	1,836
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	180,009,500	179,088,091
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	51,341,742	51,103,541
16	Accumulated Deferred Income Taxes	17,478,939	17,416,798
17	Unamortized Investment Credit - Pre 1971	42,508	42,766
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,235,778	7,190,748
21	Customer Advances for Construction	4,962,290	4,970,191
22	All Other A/	(264,568)	(251,187)
23			
24			
25			
26	Total Deductions	80,796,689	80,472,857
27			
28	Rate Base	\$99,212,811	\$98,615,234
29			
30	Net Operating Income	\$441,123	\$4,664,190
31	Adjustments to NOI		
32	Allowance for funds used during construction	19,077	157,276
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,256	132,177
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$471,456	\$4,953,643
40			
41			
42	Rate of return B/	5.70%	5.02%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	28,565	53,825
Unpaid for materials and supplies	54,471	50,084
Taxes on CIAC-DEF. FIT & SIT	(347,604)	(355,096)
	(\$264,568)	(\$251,187)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

December 18, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – October 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$260,244
	(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,386	5,406	24	186	69,002
37. 3/4"	129	125	2	12	268
38. 1"	291	1,364	25	146	1,826
39. 1 1/2"	20	328	7	70	425
40. 2"	15	1,024	86	289	1,414
41. 3"	1	39		4	44
42. 4"&Over		29	31	36	96
43. Totals	63,842	8,315	175	743	73,075

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Jan 4, 20 07

(Signed)

Title and Address:

Michael D. Miller SM
Director Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: September 2006

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,577,388	1,019,416	10,410,959	9,751,997	13,872,644	12,928,148
2. Commercial Sales.....	1,115,565	804,321	7,749,047	7,296,986	10,347,365	9,886,295
3. Industrial Sales.....	379,264	226,085	2,768,615	2,338,005	3,740,300	3,119,984
4. Other Sales.....	699,592	519,716	4,835,520	4,618,373	6,280,619	6,274,592
5. Total Operating Revenues (Item 1-4).....	3,771,808	2,569,538	25,764,141	24,005,361	34,240,928	32,209,019
Operating Expenses						
6. Source of Supply Expense.....	36,365	731	153,907	157,504	216,347	146,366
7. Pumping and Water Treatment Expense.....	534,412	357,473	3,768,936	2,862,747	4,742,536	3,869,203
8. Transmission and Distribution-Operation.....	76,491	51,683	586,305	538,844	757,016	698,628
9. Transmission and Distribution-Maintenance.....	153,986	114,528	1,086,177	956,970	1,398,333	1,197,235
10. Customer Accounts and Sales Expense.....	155,234	121,376	1,217,305	1,139,833	1,743,873	1,419,129
11. Administrative and General Expense.....	863,614	817,922	7,764,746	7,220,322	10,716,044	9,761,491
12. Depreciation and Amortization.....	360,782	332,414	3,385,499	2,907,366	4,417,893	3,745,845
13. Taxes Other Than Income Taxes.....	454,098	276,047	2,753,662	2,021,536	3,654,709	2,908,029
14. Income Taxes.....	38,527	116,708	930,926	1,786,834	1,875,801	2,484,859
15. Total Operating Expenses (Item 6-14).....	2,673,508	2,188,883	21,647,463	19,591,956	29,522,552	26,230,785
16. Net Operating Income (Item 5 less 15).....	1,098,300	380,656	4,116,678	4,413,405	4,718,376	5,978,234
17. Other Income.....	3,844	245	8,447	(14,905)	1,700	4,255
18. Miscellaneous Income Deductions.....	(2,903)	7,704	21,155	13,770	21,574	16,874
19. Interest Charges.....	286,224	237,273	2,425,518	2,151,998	3,167,559	2,865,155
20. Net Income.....	818,823	135,923	1,678,452	2,232,732	1,530,943	3,100,460
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	180,026,613	162,683,113	173,858,486	158,525,920		
22. Construction Work in Progress.....	2,690,507	4,994,649	2,309,864	5,152,553		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.(1).....	52,407,426	49,612,289	50,866,370	48,756,280		
26. Materials and Supplies.....	281,277	275,028	294,415	358,012		
27. Unamortized Investment Credit.....	1,211,724	1,288,095	1,253,092	1,323,097		
28. Deferred Income Tax.....	17,583,148	16,728,307	17,370,370	15,685,260		
29. Contributions in Aid of Construction.....	7,291,432	6,718,425	7,156,612	6,527,920		
30. Customer Advances for Construction.....	5,294,529	4,160,289	4,875,531	3,642,406		
31. Preferred Stock.....	1,382,100	1,382,100	1,382,100	1,392,308		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,788,768		
34. Retained Earnings.....	20,184,104	19,723,726	19,564,969	19,539,326		
35. Long Term Debt.....(1).....	39,904,759	40,013,017	40,229,839	42,193,638		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED SEPTEMBER 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$174,484,376	\$172,267,986
3	Plant Under Construction	1,614,180	2,309,864
4	Property Held For Future Use	0	0
5	Materials and Supplies	289,228	294,415
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,674	2,168
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	179,365,163	177,850,138
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	51,183,835	50,866,370
16	Accumulated Deferred Income Taxes	17,507,382	17,370,370
17	Unamortized Investment Credit - Pre 1971	42,637	43,024
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,230,079	7,156,612
21	Customer Advances for Construction	4,912,420	4,875,531
22	All Other A/	(263,236)	(255,806)
23			
24			
25			
26	Total Deductions	80,613,117	80,056,101
27			
28	Rate Base	\$98,752,046	\$97,794,037
29			
30	Net Operating Income	\$1,098,300	\$4,718,376
31	Adjustments to NOI		
32	Allowance for funds used during construction	15,407	160,549
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,204	131,301
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$1,124,911	\$5,010,226
40			
41			
42	Rate of return B/	13.67%	5.12%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	30,850	53,825
Unpaid for materials and supplies	54,680	50,084
Taxes on CIAC-DEF. FIT & SIT	(348,766)	(359,715)
	(\$263,236)	(\$255,806)

B/ Rate of return - Monthly $(L25 / L18) \times 12$

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

November 9, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – September 2006

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$305,456

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,353	5,418	24	186	68,981
37. 3/4"	130	124	2	11	267
38. 1"	290	1,368	25	146	1,829
39. 1 1/2"	20	326	7	70	423
40. 2"	15	1,025	87	285	1,412
41. 3"		39		4	43
42. 4"&Over		29	30	36	95
43. Totals	63,808	8,329	175	738	73,050

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 11/30/06, 20__

(Signed)

Michael A. Miller

Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

13

Company Name: Tennessee-American Water Co.
Month of Report: August 2006

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,145,328	1,205,909	8,833,571	8,732,581	13,314,673	12,987,941
2. Commercial Sales.....	900,054	887,817	6,633,482	6,492,666	10,036,121	9,799,774
3. Industrial Sales.....	395,639	260,726	2,389,352	2,111,920	3,587,121	3,198,910
4. Other Sales.....	606,797	514,419	4,135,928	4,098,657	6,100,744	6,405,200
5. Total Operating Revenues (Item 1-4).....	3,047,817	2,868,871	21,992,333	21,435,824	33,038,659	32,391,825
Operating Expenses						
6. Source of Supply Expense.....	18,224	45,511	117,542	156,772	180,713	147,313
7. Pumping and Water Treatment Expense.....	485,363	385,518	3,234,525	2,505,274	4,565,598	3,823,157
8. Transmission and Distribution-Operation.....	58,502	49,972	509,814	487,161	732,208	698,026
9. Transmission and Distribution-Maintenance.....	111,083	99,654	932,191	842,442	1,358,876	1,164,467
10. Customer Accounts and Sales Expense.....	101,596	128,425	1,062,071	1,018,458	1,710,015	1,453,880
11. Administrative and General Expense.....	868,726	829,962	6,901,132	6,402,400	10,670,352	9,576,951
12. Depreciation and Amortization.....	356,567	324,371	3,024,716	2,574,952	4,389,526	3,690,541
13. Taxes Other Than Income Taxes.....	279,687	275,709	2,299,563	1,745,489	3,476,658	2,928,953
14. Income Taxes.....	212,882	217,480	892,399	1,670,126	1,953,982	2,662,623
15. Total Operating Expenses (Item 6-14).....	2,492,630	2,356,603	18,973,953	17,403,074	29,037,928	26,145,911
16. Net Operating Income (Item 5 less 15).....	555,187	512,268	3,018,380	4,032,750	4,000,731	6,245,914
17. Other Income.....	(1,878)	23	4,602	(15,150)	(1,900)	2,098
18. Miscellaneous Income Deductions.....	0	(1,120)	24,058	6,065	32,181	15,337
19. Interest Charges.....	283,493	247,490	2,139,295	1,914,725	3,118,608	2,873,486
20. Net Income.....	269,817	265,921	859,629	2,096,810	848,042	3,359,189
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	178,113,354	160,396,458	172,413,194	157,793,620		
22. Construction Work in Progress.....	1,815,581	5,971,609	2,501,876	5,116,008		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	52,062,568	49,279,366	50,633,442	48,633,659		
26. Materials and Supplies.....	270,179	342,094	293,894	368,973		
27. Unamortized Investment Credit.....	1,218,088	1,294,459	1,259,457	1,329,461		
28. Deferred Income Tax.....	17,578,393	16,748,187	17,299,134	15,456,926		
29. Contributions in Aid of Construction.....	7,284,370	6,714,615	7,108,862	6,473,755		
30. Customer Advances for Construction.....	4,867,468	3,680,878	4,781,012	3,580,139		
31. Preferred Stock.....	1,382,100	1,382,100	1,382,100	1,393,767		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,788,768		
34. Retained Earnings.....	19,905,802	20,215,863	19,526,604	19,489,850		
35. Long Term Debt.....(1).....	39,913,988	40,022,123	40,238,860	42,468,082		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED AUGUST 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$173,990,408	\$170,822,694
3	Plant Under Construction	1,479,639	2,501,876
4	Property Held For Future Use	0	0
5	Materials and Supplies	290,222	293,894
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	1,841	2,499
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	178,737,815	176,596,668
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	51,030,887	50,633,442
16	Accumulated Deferred Income Taxes	17,497,911	17,299,134
17	Unamortized Investment Credit - Pre 1971	42,766	43,282
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,222,410	7,108,862
21	Customer Advances for Construction	4,864,657	4,781,012
22	All Other A/	(280,179)	(260,424)
23			
24			
25			
26	Total Deductions	80,378,452	79,605,308
27			
28	Rate Base	\$98,359,363	\$96,991,360
29			
30	Net Operating Income	\$555,187	\$4,000,731
31	Adjustments to NOI		
32	Allowance for funds used during construction	11,144	165,661
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,160	130,454
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$577,492	\$4,296,846
40			
41			
42	Rate of return B/	7.05%	4.43%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	18,630	53,825
Unpaid for materials and supplies	51,411	50,084
Taxes on CIAC-DEF. FIT & SIT	(350,220)	(364,333)
	<u>(\$280,179)</u>	<u>(\$260,424)</u>

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	<u>2,456,357</u>
Working cash	<u>\$1,385,205</u>

October 10, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – August 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$350,668
	(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,371	5,437	24	185	69,017
37. 3/4"	128	124	2	11	265
38. 1"	294	1,361	26	141	1,822
39. 1 1/2"	21	325	7	70	423
40. 2"	15	1,019	87	286	1,407
41. 3"		39		3	42
42. 4"&Over		29	31	36	96
43. Totals	63,829	8,334	177	732	73,072

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10/26, 20 06

(Signed)

Title and Address:

Michael A. Miller

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

29

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: July 2006

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,170,510	1,206,078	7,688,244	7,526,671	13,375,254	12,835,190
2. Commercial Sales.....	794,475	825,640	5,733,428	5,604,849	10,023,884	9,754,602
3. Industrial Sales.....	252,101	278,193	1,993,713	1,851,194	3,452,209	3,164,171
4. Other Sales.....	492,566	563,539	3,529,131	3,584,238	6,008,367	6,407,593
5. Total Operating Revenues (Item 1-4).....	2,709,651	2,873,451	18,944,516	18,566,952	32,859,714	32,161,556
Operating Expenses						
6. Source of Supply Expense.....	19,975	24,255	99,319	111,261	208,001	131,205
7. Pumping and Water Treatment Expense.....	592,056	361,861	2,749,162	2,119,757	4,465,752	3,842,276
8. Transmission and Distribution-Operation.....	58,160	57,359	451,312	437,189	723,678	694,909
9. Transmission and Distribution-Maintenance.....	107,392	87,829	821,108	742,787	1,347,447	1,137,215
10. Customer Accounts and Sales Expense.....	148,405	126,002	960,475	890,033	1,736,844	1,409,095
11. Administrative and General Expense.....	853,773	754,989	6,032,406	5,572,438	10,631,588	9,457,819
12. Depreciation and Amortization.....	544,345	324,717	2,668,150	2,250,581	4,357,330	3,642,891
13. Taxes Other Than Income Taxes.....	280,723	274,778	2,019,876	1,469,780	3,472,680	2,953,467
14. Income Taxes.....	45,597	285,708	679,517	1,452,645	1,958,580	2,661,392
15. Total Operating Expenses (Item 6-14).....	2,650,426	2,297,499	16,481,325	15,046,471	28,901,900	25,930,269
16. Net Operating Income (Item 5 less 15).....	59,225	575,951	2,463,191	3,520,481	3,957,814	6,231,287
17. Other Income.....	(146)	(1,765)	6,480	(15,172)	0	1,364
18. Miscellaneous Income Deductions.....	4,209	6,401	24,058	7,185	31,062	10,113
19. Interest Charges.....	264,424	204,192	1,855,802	1,667,236	3,082,604	2,851,007
20. Net Income.....	(209,554)	363,593	589,811	1,830,888	844,148	3,371,531
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	177,551,267	159,853,805	170,936,786	157,214,301		
22. Construction Work in Progress.....	1,493,254	6,133,139	2,848,211	5,153,496		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	51,726,866	49,025,463	50,401,508	48,515,133		
26. Materials and Supplies.....	276,805	301,263	299,887	377,517		
27. Unamortized Investment Credit.....	1,224,452	1,300,823	1,265,821	1,335,825		
28. Deferred Income Tax.....	17,463,466	16,845,812	17,229,950	15,229,079		
29. Contributions in Aid of Construction.....	7,269,797	6,726,440	7,061,382	6,420,552		
30. Customer Advances for Construction.....	4,759,433	3,480,403	4,682,129	3,551,647		
31. Preferred Stock.....	1,382,100	1,382,100	1,382,100	1,395,225		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,788,768		
34. Retained Earnings.....	19,630,599	19,932,150	19,552,443	19,418,899		
35. Long Term Debt.....(1).....	39,932,230	40,040,004	40,247,871	42,743,040		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JULY 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$173,628,630	\$169,346,286
3	Plant Under Construction	1,431,647	2,848,211
4	Property Held For Future Use	0	0
5	Materials and Supplies	293,086	299,887
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,008	2,830
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	178,331,076	175,472,919
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	50,883,503	50,401,508
16	Accumulated Deferred Income Taxes	17,486,414	17,229,950
17	Unamortized Investment Credit - Pre 1971	42,895	43,540
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,213,558	7,061,382
21	Customer Advances for Construction	4,864,255	4,682,129
22	All Other A/	(280,090)	(265,044)
23			
24			
25			
26	Total Deductions	80,210,535	79,153,465
27			
28	Rate Base	\$98,120,541	\$96,319,454
29			
30	Net Operating Income	\$59,225	\$3,957,814
31	Adjustments to NOI		
32	Allowance for funds used during construction	7,990	178,068
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,133	129,639
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$78,348	\$4,265,521
40			
41			
42	Rate of return B/	0.96%	4.43%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF. FIT & SIT	(352,090)	(368,953)
	(\$280,090)	(\$265,044)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

September 11, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – July 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$395,879

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,188	5,434	24	184	68,830
37. 3/4"	125	124	2	10	261
38. 1"	286	1,362	26	141	1,815
39. 1 1/2"	20	324	7	70	421
40. 2"	15	1,012	87	287	1,401
41. 3"		42		4	46
42. 4"&Over		29	31	36	96
43. Totals	63,634	8,327	177	732	72,870

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 9.27, 20 06

(Signed)

Michael A. Miller

Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: June 2006

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,519,318	1,226,406	6,517,734	6,320,593	13,410,823	12,910,869
2. Commercial Sales.....	1,101,937	969,855	4,938,954	4,779,209	10,055,049	9,814,981
3. Industrial Sales.....	415,150	308,276	1,741,612	1,573,000	3,478,301	3,107,911
4. Other Sales.....	751,365	506,263	3,036,566	3,020,698	6,079,340	6,415,193
5. Total Operating Revenues (Item 1-4).....	3,787,770	3,010,800	16,234,866	15,693,500	33,023,513	32,248,954
Operating Expenses						
6. Source of Supply Expense.....	6,222	20,187	79,344	87,005	212,282	129,879
7. Pumping and Water Treatment Expense.....	435,908	362,650	2,157,105	1,757,896	4,235,557	3,833,847
8. Transmission and Distribution-Operation.....	56,067	80,971	393,152	379,829	722,878	689,108
9. Transmission and Distribution-Maintenance.....	100,348	138,505	713,716	654,958	1,327,884	1,120,959
10. Customer Accounts and Sales Expense.....	153,807	140,768	812,070	764,031	1,714,441	1,450,033
11. Administrative and General Expense.....	1,069,901	634,151	5,178,633	4,817,449	10,532,804	9,456,838
12. Depreciation and Amortization.....	358,070	323,554	2,123,805	1,925,864	4,137,702	3,594,489
13. Taxes Other Than Income Taxes.....	291,929	286,161	1,739,153	1,195,002	3,466,735	2,979,390
14. Income Taxes.....	437,732	338,569	633,919	1,166,937	2,198,691	2,686,163
15. Total Operating Expenses (Item 6-14).....	2,909,983	2,325,517	13,830,897	12,748,971	28,548,974	25,940,706
16. Net Operating Income (Item 5 less 15).....	877,787	685,283	2,403,969	2,944,529	4,474,539	6,308,248
17. Other Income.....	1,046	3,376	6,625	(13,407)	(1,620)	(11,883)
18. Miscellaneous Income Deductions.....	6,150	(2,288)	19,849	784	33,254	(3,779)
19. Interest Charges.....	291,963	258,052	1,591,378	1,463,043	3,022,373	2,883,361
20. Net Income.....	580,720	432,895	799,367	1,467,295	1,417,292	3,416,783
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	177,013,297	159,519,461	169,461,998	156,669,432		
22. Construction Work in Progress.....	1,136,656	6,022,838	3,234,868	5,103,285		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	51,354,529	48,712,925	50,176,392	48,394,880		
26. Materials and Supplies.....	300,509	302,529	301,925	387,675		
27. Unamortized Investment Credit.....	1,230,819	1,307,187	1,272,185	1,342,189		
28. Deferred Income Tax.....	17,870,833	16,818,063	17,178,479	14,992,890		
29. Contributions in Aid of Construction.....	7,263,938	6,684,062	7,016,102	6,366,137		
30. Customer Advances for Construction.....	4,732,027	3,523,171	4,575,543	3,541,107		
31. Preferred Stock.....	1,382,100	1,382,100	1,382,100	1,396,683		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,788,768		
34. Retained Earnings.....	19,837,921	19,550,762	19,577,572	19,347,845		
35. Long Term Debt.....(1).....	39,932,230	40,040,046	40,256,852	43,016,507		

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY
SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

Page 2

FOR THE MONTH ENDED JUNE 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$173,239,941	\$167,871,498
3	Plant Under Construction	1,421,379	3,234,868
4	Property Held For Future Use	0	0
5	Materials and Supplies	295,799	301,925
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,174	3,161
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,934,998	174,387,157
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	50,742,943	50,176,391
16	Accumulated Deferred Income Taxes	17,490,238	17,178,479
17	Unamortized Investment Credit - Pre 1971	43,024	43,798
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,204,185	7,016,102
21	Customer Advances for Construction	4,881,725	4,575,543
22	All Other A/	(289,546)	(269,662)
23			
24			
25			
26	Total Deductions	80,072,569	78,720,651
27			
28	Rate Base	\$97,862,429	\$95,666,506
29			
30	Net Operating Income	\$877,787	\$4,474,539
31	Adjustments to NOI		
32	Allowance for funds used during construction	(84)	193,631
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,103	128,841
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$888,806	\$4,797,011
40			
41			
42	Rate of return B/	10.90%	5.01%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(354,582)	(373,571)
	(\$289,546)	(\$269,662)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

August 15, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$441,091

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,016	5,440	24	182	68,662
37. 3/4"	124	123	2	10	259
38. 1"	286	1,359	26	139	1,810
39. 1 1/2"	20	324	7	69	420
40. 2"	15	1,012	89	287	1,403
41. 3"		46		4	50
42. 4"&Over		29	31	36	96
43. Totals	63,461	8,333	179	727	72,700

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 7-22, 20 06

(Signed)

Title and Address:

Michael S. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

Company Name: Tennessee-American Water Co.
Month of Report: May 2006

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$172,803,370	\$166,413,678
3	Plant Under Construction	1,478,324	3,642,050
4	Property Held For Future Use	0	0
5	Materials and Supplies	294,857	302,094
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,340	3,491
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,554,596	173,337,018
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	50,620,626	49,956,258
16	Accumulated Deferred Income Taxes	17,414,119	17,090,748
17	Unamortized Investment Credit - Pre 1971	43,153	44,056
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,192,234	6,967,779
21	Customer Advances for Construction	4,911,665	4,474,805
22	All Other A/	(289,020)	(274,281)
23			
24			
25			
26	Total Deductions	79,892,777	78,259,365
27			
28	Rate Base	\$97,661,819	\$95,077,653
29			
30	Net Operating Income	\$235,019	\$4,282,037
31	Adjustments to NOI		
32	Allowance for funds used during construction	6,120	214,269
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	11,081	128,061
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$252,220	\$4,624,367
40			
41			
42	Rate of return B/	3.10%	4.86%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF, FIT & SIT	(358,071)	(378,190)
	(\$289,020)	(\$274,281)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

10

Company Name: Tennessee-American Water Co.
Month of Report: April 2006

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$172,724,279	\$165,118,454
3	Plant Under Construction	1,355,948	3,954,438
4	Property Held For Future Use	0	0
5	Materials and Supplies	295,484	302,829
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,504	3,821
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,353,920	172,355,247
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	50,497,610	49,735,350
16	Accumulated Deferred Income Taxes	17,373,266	17,009,860
17	Unamortized Investment Credit - Pre 1971	43,282	44,314
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,177,100	6,919,221
21	Customer Advances for Construction	4,926,805	4,379,357
22	All Other A/	(290,761)	(278,900)
23			
24			
25			
26	Total Deductions	79,727,302	77,809,202
27			
28	Rate Base	\$97,626,618	\$94,546,045
29			
30	Net Operating Income	\$418,821	\$4,708,625
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,168	227,133
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,076	127,288
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$435,065	\$5,063,046
40			
41			
42	Rate of return B/	5.35%	5.36%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF. FIT & SIT	(363,306)	(382,809)
	(\$290,761)	(\$278,900)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,646	5,423	24	180	68,273
37. 3/4"	119	122	2	10	253
38. 1"	272	1,347	26	138	1,783
39. 1 1/2"	22	324	7	68	421
40. 2"	14	1,009	88	278	1,389
41. 3"		41		4	45
42. 4" & Over		31	29	37	97
43. Totals	63,073	8,297	176	715	72,261

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: _____, 20 ____

(Signed) _____

Title and Address: _____

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

13

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: March 2006

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	923,036	919,402	2,919,043	2,859,432	13,273,293	12,757,984
2. Commercial Sales.....	795,552	819,687	2,302,901	2,195,103	10,003,102	9,647,315
3. Industrial Sales.....	237,206	294,384	777,148	771,435	3,315,403	3,129,516
4. Other Sales.....	488,742	571,762	1,317,160	1,527,403	5,853,230	6,644,841
5. Total Operating Revenues (Item 1-4).....	2,444,536	2,605,234	7,316,252	7,353,373	32,445,028	32,179,656
Operating Expenses						
6. Source of Supply Expense.....	9,141	14,773	48,127	50,003	218,067	168,855
7. Pumping and Water Treatment Expense.....	349,632	304,702	1,007,279	792,289	4,051,337	3,827,768
8. Transmission and Distribution-Operation.....	54,105	56,283	210,669	203,646	716,579	652,861
9. Transmission and Distribution-Maintenance.....	89,538	112,547	377,304	294,508	1,351,922	987,236
10. Customer Accounts and Sales Expense.....	122,974	96,422	347,520	369,331	1,644,590	1,412,346
11. Administrative and General Expense.....	907,890	857,310	2,473,132	2,347,018	10,297,734	9,510,588
12. Depreciation and Amortization.....	351,751	233,213	1,060,865	954,241	4,046,385	3,506,989
13. Taxes Other Than Income Taxes.....	279,149	(162,138)	842,878	447,781	3,317,681	3,134,913
14. Income Taxes.....	7,859	369,824	76,137	514,474	2,293,372	2,659,927
15. Total Operating Expenses (Item 6-14).....	2,172,039	1,882,935	6,443,911	5,973,291	27,937,667	25,861,483
16. Net Operating Income (Item 5 less 15).....	272,497	722,299	872,341	1,380,082	4,507,361	6,318,173
17. Other Income.....	608	4,963	1,548	(8,406)	(11,698)	(28,616)
18. Miscellaneous Income Deductions.....	8,981	3,085	19,318	3,413	30,093	(1,558)
19. Interest Charges.....	261,024	241,019	771,311	718,247	2,947,102	2,847,918
20. Net Income.....	3,101	483,158	83,260	650,016	1,518,468	3,443,197
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	174,366,052	158,659,251	165,466,808	155,024,191		
22. Construction Work in Progress.....	863,075	5,048,163	4,232,059	4,694,134		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	50,749,532	47,794,357	49,509,548	48,086,325		
26. Materials and Supplies.....	301,519	361,032	308,781	402,707		
27. Unamortized Investment Credit.....	1,249,911	1,326,279	1,284,913	1,361,281		
28. Deferred Income Tax.....	17,310,512	16,422,725	16,929,706	14,223,636		
29. Contributions in Aid of Construction.....	7,231,973	6,605,809	6,867,407	6,209,576		
30. Customer Advances for Construction.....	4,857,189	3,763,543	4,287,866	3,458,382		
31. Preferred Stock.....	1,382,100	1,399,600	1,383,558	1,404,456		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,787,873		
34. Retained Earnings.....	19,127,888	19,192,474	19,572,774	19,067,099		
35. Long Term Debt.....(1).....	39,957,691	43,262,932	40,818,553	43,303,883		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$172,881,619	\$163,876,308
3	Plant Under Construction	1,083,701	4,232,059
4	Property Held For Future Use	0	0
5	Materials and Supplies	302,859	308,781
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	2,666	4,150
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,246,550	171,397,003
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	50,384,395	49,509,549
16	Accumulated Deferred Income Taxes	17,392,850	16,929,706
17	Unamortized Investment Credit - Pre 1971	43,411	44,572
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,156,637	6,867,407
21	Customer Advances for Construction	4,946,968	4,287,866
22	All Other A/	(297,540)	(283,518)
23			
24			
25			
26	Total Deductions	79,626,721	77,355,582
27			
28	Rate Base	\$97,619,829	\$94,041,421
29			
30	Net Operating Income	\$272,497	\$4,507,361
31	Adjustments to NOI		
32	Allowance for funds used during construction	6,999	239,127
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,076	126,528
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$290,572	\$4,873,016
40			
41			
42	Rate of return B/	3.57%	5.18%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(372,029)	(387,427)
	(\$297,540)	(\$283,518)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

May 17, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	(\$47,861)
(2)	Revenues due to 3-9-05 rate increase	\$86

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,503	5,406	23	176	68,108
37. 3/4"	116	124	2	10	252
38. 1"	255	1,338	26	139	1,758
39. 1 1/2"	21	322	7	68	418
40. 2"	16	1,011	88	278	1,393
41. 3"		36		4	40
42. 4"&Over		31	29	37	97
43. Totals	62,911	8,268	175	712	72,066

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

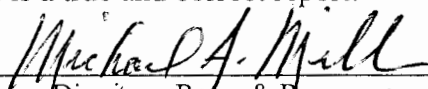
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 5-22, 20 06

(Signed) _____

Title and Address: _____


Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

13

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: February 2006

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	967,025	856,953	1,996,007	1,940,031	13,269,659	12,913,761
2. Commercial Sales.....	736,526	618,133	1,507,348	1,375,416	10,027,236	9,648,256
3. Industrial Sales.....	269,173	212,382	539,942	477,051	3,372,580	3,079,059
4. Other Sales.....	427,061	427,043	828,418	955,641	5,936,250	6,663,672
5. Total Operating Revenues (Item 1-4).....	2,399,786	2,114,511	4,871,715	4,748,139	32,605,725	32,304,748
Operating Expenses						
6. Source of Supply Expense.....	21,783	24,991	38,986	35,229	223,700	163,851
7. Pumping and Water Treatment Expense.....	315,267	278,935	657,647	487,587	4,006,407	3,884,917
8. Transmission and Distribution-Operation.....	58,796	71,009	156,564	147,363	718,757	656,221
9. Transmission and Distribution-Maintenance.....	110,458	91,016	287,767	181,962	1,374,931	988,495
10. Customer Accounts and Sales Expense.....	110,557	158,985	224,545	272,909	1,618,037	1,429,476
11. Administrative and General Expense.....	981,285	790,932	1,565,242	1,489,708	10,247,154	9,447,091
12. Depreciation and Amortization.....	356,597	439,130	709,114	721,028	3,927,848	3,674,669
13. Taxes Other Than Income Taxes.....	247,883	291,598	563,729	609,919	2,876,394	3,614,516
14. Income Taxes.....	(25,549)	(105,323)	68,278	144,650	2,655,336	2,435,224
15. Total Operating Expenses (Item 6-14).....	2,177,077	2,041,273	4,271,872	4,090,355	27,648,564	26,294,460
16. Net Operating Income (Item 5 less 15).....	222,709	73,238	599,843	657,784	4,957,161	6,010,288
17. Other Income.....	(134)	3,506	940	(13,369)	(7,343)	(20,403)
18. Miscellaneous Income Deductions.....	10,045	442	10,337	328	24,197	(4,298)
19. Interest Charges.....	252,855	237,863	510,286	477,228	2,927,097	2,845,702
20. Net Income.....	(40,325)	(161,561)	80,160	166,859	1,998,524	3,148,481
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	175,107,190	158,312,986	164,157,908	154,463,936		
22. Construction Work in Progress.....	369,821	4,387,895	4,580,817	4,528,452		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	50,384,396	49,388,133	49,263,284	47,985,268		
26. Materials and Supplies.....	303,442	456,438	313,740	405,375		
27. Unamortized Investment Credit.....	1,256,275	1,332,643	1,291,277	1,367,645		
28. Deferred Income Tax.....	17,386,103	14,940,157	16,855,723	13,964,254		
29. Contributions in Aid of Construction.....	7,118,946	6,503,776	6,815,226	6,159,214		
30. Customer Advances for Construction.....	4,977,428	3,627,753	4,196,729	3,400,306		
31. Preferred Stock.....	1,382,100	1,399,600	1,385,017	1,407,406		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,787,426		
34. Retained Earnings.....	19,123,548	19,369,317	19,578,156	18,960,911		
35. Long Term Debt.....(1).....	39,966,494	43,270,368	41,093,990	43,310,952		

(1) Includes Capital Lease

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,477	5,406	23	176	68,082
37. 3/4"	116	124	2	10	252
38. 1"	255	1,338	26	139	1,758
39. 1 1/2"	21	322	7	68	418
40. 2"	16	1,011	88	278	1,393
41. 3"		36		4	40
42. 4"&Over		31	29	37	97
43. Totals	62,885	8,268	175	712	72,040

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

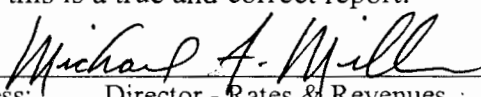
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4-20, 20 06

(Signed)

Title and Address:


Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES AND EXPENSES
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: January 2006

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,028,982	1,083,077	1,028,982	1,083,077	13,159,586	12,854,350
2. Commercial Sales.....	770,822	757,283	770,822	757,283	9,908,843	9,717,800
3. Industrial Sales.....	270,769	264,669	270,769	264,669	3,315,789	3,122,724
4. Other Sales.....	401,357	528,598	401,357	528,598	5,936,232	6,713,344
5. Total Operating Revenues (Item 1-4).....	2,471,929	2,633,627	2,471,930	2,633,627	32,320,450	32,408,218
Operating Expenses						
6. Source of Supply Expense.....	17,203	10,238	17,203	10,238	226,908	141,800
7. Pumping and Water Treatment Expense.....	342,380	208,652	342,380	208,652	3,970,075	3,924,655
8. Transmission and Distribution-Operation.....	97,768	76,353	97,768	76,353	730,970	627,747
9. Transmission and Distribution-Maintenance.....	177,309	90,946	177,309	90,946	1,355,490	997,803
10. Customer Accounts and Sales Expense.....	113,988	113,924	113,988	113,924	1,666,465	1,378,492
11. Administrative and General Expense.....	583,957	698,776	583,957	698,776	10,056,801	9,526,673
12. Depreciation and Amortization.....	352,517	281,898	352,517	281,898	4,010,381	3,636,018
13. Taxes Other Than Income Taxes.....	315,846	318,322	315,846	318,322	2,920,108	3,627,129
14. Income Taxes.....	93,826	249,972	93,826	249,972	2,575,563	2,498,860
15. Total Operating Expenses (Item 6-14).....	2,094,794	2,049,081	2,094,794	2,049,081	27,512,761	26,359,177
16. Net Operating Income (Item 5 less 15).....	377,135	584,546	377,136	584,546	4,807,689	6,049,041
17. Other Income.....	1,074	(16,874)	1,074	(16,874)	(3,704)	(41,584)
18. Miscellaneous Income Deductions.....	292	(113)	292	(113)	14,594	(11,438)
19. Interest Charges.....	257,431	239,364	257,431	239,364	2,912,105	2,782,332
20. Net Income.....	120,486	328,421	120,487	328,421	1,877,286	3,236,563
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	173,943,115	158,060,359	162,758,391	153,912,724		
22. Construction Work in Progress.....	2,018,206	4,035,178	4,915,656	4,375,086		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	50,019,258	48,988,181	49,180,262	47,718,481		
26. Materials and Supplies.....	303,617	420,418	326,490	398,059		
27. Unamortized Investment Credit.....	1,262,639	1,339,007	1,297,641	1,374,009		
28. Deferred Income Tax.....	17,481,935	14,790,833	16,651,895	13,771,869		
29. Contributions in Aid of Construction.....	7,118,994	6,435,942	6,763,962	6,116,272		
30. Customer Advances for Construction.....	5,006,286	3,693,857	4,084,256	3,339,512		
31. Preferred Stock.....	1,382,100	1,399,600	1,386,475	1,410,356		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,786,978		
34. Retained Earnings.....	19,163,300	19,524,975	19,598,637	18,898,099		
35. Long Term Debt.....(1).....	43,277,632	43,277,632	41,369,312	41,734,627		

(1) Includes Capital Lease

FOR THE MONTH ENDED JANUARY 2006

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$172,355,038	\$161,167,891
3	Plant Under Construction	1,520,181	4,915,656
4	Property Held For Future Use	0	0
5	Materials and Supplies	300,365	326,490
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	3,152	4,811
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	177,154,441	169,390,553
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	49,837,616	49,180,262
16	Accumulated Deferred Income Taxes	17,472,345	16,651,895
17	Unamortized Investment Credit - Pre 1971	43,798	45,088
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	7,089,491	6,763,962
21	Customer Advances for Construction	5,098,971	4,084,256
22	All Other A/	(204,233)	(288,353)
23			
24			
25			
26	Total Deductions	79,337,988	76,437,110
27			
28	Rate Base	\$97,816,453	\$92,953,443
29			
30	Net Operating Income	\$377,135	\$4,807,689
31	Adjustments to NOI		
32	Allowance for funds used during construction	3,071	250,128
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	11,098	124,885
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$391,304	\$5,182,702
40			
41			
42	Rate of return B/	4.80%	5.58%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(390,774)	(392,262)
	(\$204,233)	(\$288,353)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

March 9, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – January 2006 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$72,829
(2)	Revenues due to 3-9-05 rate increase	\$18,276

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/06

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,210	5,416	23	177	67,826
37. 3/4"	115	123	2	11	251
38. 1"	249	1,336	26	139	1,750
39. 1 1/2"	21	319	7	68	415
40. 2"	16	1,026	88	280	1,410
41. 3"		42		4	46
42. 4"&Over		31	28	35	94
43. Totals	62,611	8,293	174	714	71,792

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 3-15, 20 06

(Signed)

Title and Address:

Michael F. Melle
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: December 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,207,467	1,357,818	13,213,682	12,551,935	13,213,682	12,551,935
2. Commercial Sales.....	912,734	1,124,319	9,895,304	9,563,971	9,895,304	9,563,971
3. Industrial Sales.....	377,045	317,022	3,309,689	3,038,889	3,309,689	3,038,889
4. Other Sales.....	476,378	634,380	6,063,473	6,700,925	6,063,473	6,700,925
5. Total Operating Revenues (Item 1-4).....	2,973,625	3,433,539	32,482,148	31,855,720	32,482,148	31,855,720
Operating Expenses						
6. Source of Supply Expense.....	14,120	(30,311)	219,943	135,000	219,943	135,000
7. Pumping and Water Treatment Expense.....	369,726	368,410	3,836,347	3,989,361	3,836,347	3,989,361
8. Transmission and Distribution-Operation.....	64,342	52,541	709,555	633,541	709,555	633,541
9. Transmission and Distribution-Maintenance.....	84,452	88,374	1,269,126	1,037,344	1,269,126	1,037,344
10. Customer Accounts and Sales Expense.....	180,771	102,877	1,666,401	1,393,399	1,666,401	1,393,399
11. Administrative and General Expense.....	1,314,003	1,187,854	10,171,620	9,394,639	10,171,620	9,394,639
12. Depreciation and Amortization.....	358,857	271,712	3,939,761	3,754,329	3,939,761	3,754,329
13. Taxes Other Than Income Taxes.....	352,337	295,485	2,922,584	3,548,142	2,922,584	3,548,142
14. Income Taxes.....	569,202	391,801	2,731,709	2,267,446	2,731,709	2,267,446
15. Total Operating Expenses (Item 6-14).....	3,307,808	2,728,742	27,467,046	26,153,201	27,467,046	26,153,201
16. Net Operating Income (Item 5 less 15).....	(334,183)	704,797	5,015,102	5,702,519	5,015,102	5,702,519
17. Other Income.....	(1,391)	15,547	(21,652)	(39,244)	(21,652)	(39,244)
18. Miscellaneous Income Deductions.....	(918)	563	14,189	(7,074)	14,189	(7,074)
19. Interest Charges.....	261,449	239,259	2,894,038	2,735,172	2,894,038	2,735,172
20. Net Income.....	(596,105)	480,522	2,085,223	2,935,177	2,085,223	2,935,177
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year	Last Year	This Year	Last Year		
	(h)	(i)	(j)	(k)		
21. Utility Plant In Service.....(1).....	173,947,962	157,854,177	161,434,828	153,371,399		
22. Construction Work in Progress.....	1,022,155	3,472,579	5,083,737	4,232,108		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	49,655,974	48,706,851	49,094,339	47,452,879		
26. Materials and Supplies.....	297,113	404,342	336,223	393,010		
27. Unamortized Investment Credit.....	1,269,003	1,345,371	1,304,005	1,380,373		
28. Deferred Income Tax.....	17,462,754	14,279,826	16,427,636	13,612,715		
29. Contributions in Aid of Construction.....	7,059,987	6,419,265	6,707,041	6,079,157		
30. Customer Advances for Construction.....	5,191,657	3,548,703	3,974,887	3,268,745		
31. Preferred Stock.....	1,382,100	1,399,600	1,387,933	1,413,306		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,786,531		
34. Retained Earnings.....	19,045,502	19,194,044	19,628,776	18,828,679		
35. Long Term Debt.....(1).....	39,985,954	43,284,896	41,369,312	40,158,252		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED DECEMBER 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$159,844,328	\$159,844,328
3	Plant Under Construction	5,083,737	5,083,737
4	Property Held For Future Use	0	0
5	Materials and Supplies	336,223	336,223
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,143	5,143
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	168,245,136	168,245,136
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	49,094,339	49,094,338
16	Accumulated Deferred Income Taxes	16,427,636	16,427,636
17	Unamortized Investment Credit - Pre 1971	45,346	45,346
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,707,041	6,707,041
21	Customer Advances for Construction	3,974,887	3,974,887
22	All Other A/	(158,180)	(158,180)
23			
24			
25			
26	Total Deductions	76,091,069	76,091,068
27			
28	Rate Base	\$92,154,067	\$92,154,068
29			
30	Net Operating Income	(\$334,183)	\$5,015,102
31	Adjustments to NOI		
32	Allowance for funds used during construction	237,038	255,458
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,456	124,026
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	(\$86,689)	\$5,394,586
40			
41			
42	Rate of return B/	-1.13%	5.85%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(262,089)	(262,089)
	(\$158,180)	(\$158,180)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

February 10, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2005 Estimate
the effect on annual net operating income of very significant known changes occurring
within the period covered by the report, which are not fully reflected in the revenue and
expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$133,175
(2)	Revenues due to 3-9-05 rate increase	\$ 33,940

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,195	5,437	23	178	67,833
37. 3/4"	117	122	2	11	252
38. 1"	257	1,339	26	138	1,760
39. 1 1/2"	21	318	7	68	414
40. 2"	17	1,029	88	281	1,415
41. 3"	1	46		4	51
42. 4"&Over		30	29	35	94
43. Totals	62,608	8,321	175	715	71,819

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: February 24, 20 06

(Signed)

Title and Address:

Michael A. Miller

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: November 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,087,922	831,136	12,006,215	11,194,117	13,364,033	12,767,372
2. Commercial Sales.....	832,538	579,169	8,982,570	8,439,652	10,106,889	9,641,735
3. Industrial Sales.....	285,478	202,388	2,932,644	2,721,867	3,249,666	3,129,742
4. Other Sales.....	489,576	563,660	5,587,095	6,066,545	6,221,475	6,672,575
5. Total Operating Revenues (Item 1-4).....	2,695,513	2,176,353	29,508,524	28,422,181	32,942,063	32,211,424
Operating Expenses						
6. Source of Supply Expense.....	4,317	6,219	205,824	165,311	175,512	167,065
7. Pumping and Water Treatment Expense.....	308,207	302,713	3,466,621	3,620,951	3,835,031	4,051,869
8. Transmission and Distribution-Operation.....	59,558	59,056	645,213	581,000	697,753	623,620
9. Transmission and Distribution-Maintenance.....	107,328	68,680	1,184,675	948,970	1,273,049	1,024,540
10. Customer Accounts and Sales Expense.....	153,767	83,718	1,485,631	1,290,523	1,588,507	1,279,662
11. Administrative and General Expense.....	845,543	702,438	8,857,618	8,206,785	10,045,472	8,901,249
12. Depreciation and Amortization.....	339,024	289,675	3,580,905	3,482,617	3,852,617	3,950,618
13. Taxes Other Than Income Taxes.....	272,626	295,588	2,570,247	3,252,657	2,865,732	3,592,005
14. Income Taxes.....	164,569	63,700	2,162,506	1,875,645	2,554,307	2,549,344
15. Total Operating Expenses (Item 6-14).....	2,254,941	1,871,787	24,159,240	23,424,459	26,887,980	26,139,972
16. Net Operating Income (Item 5 less 15).....	440,572	304,566	5,349,284	4,997,722	6,054,083	6,071,452
17. Other Income.....	(7,108)	1,504	(20,262)	(54,791)	(4,715)	51,196
18. Miscellaneous Income Deductions.....	2,807	(456)	15,107	(7,637)	15,670	36,779
19. Interest Charges.....	239,807	234,972	2,632,589	2,495,913	2,871,848	2,708,624
20. Net Income.....	190,850	71,554	2,681,326	2,454,655	3,161,850	3,377,245
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	163,986,139	154,769,448	160,093,679	152,844,236		
22. Construction Work in Progress.....	6,626,502	5,351,128	5,287,939	4,116,547		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	50,169,090	48,564,546	49,015,245	47,179,547		
26. Materials and Supplies.....	304,853	397,389	345,159	387,460		
27. Unamortized Investment Credit.....	1,275,367	1,351,735	1,310,369	1,386,737		
28. Deferred Income Tax.....	16,749,434	13,675,932	16,162,392	13,506,491		
29. Contributions in Aid of Construction.....	6,871,208	6,122,358	6,653,648	6,040,023		
30. Customer Advances for Construction.....	4,827,735	3,382,735	3,837,974	3,203,415		
31. Preferred Stock.....	1,382,100	1,399,600	1,389,392	1,416,256		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,786,083		
34. Retained Earnings.....	20,214,123	19,535,053	19,641,155	18,784,925		
35. Long Term Debt.....(1).....	39,994,552	43,292,102	41,644,224	38,581,823		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED NOVEMBER 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$158,706,770	\$158,503,179
3	Plant Under Construction	5,452,972	5,287,939
4	Property Held For Future Use	0	0
5	Materials and Supplies	339,779	345,159
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,309	5,475
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	167,480,535	167,117,457
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	49,043,281	49,015,245
16	Accumulated Deferred Income Taxes	16,333,534	16,162,392
17	Unamortized Investment Credit - Pre 1971	45,475	45,604
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,674,955	6,653,648
21	Customer Advances for Construction	3,864,272	3,837,974
22	All Other A/	(178,530)	(173,309)
23			
24			
25			
26	Total Deductions	75,782,987	75,541,554
27			
28	Rate Base	\$91,697,548	\$91,575,903
29			
30	Net Operating Income	\$440,572	\$6,054,083
31	Adjustments to NOI		
32	Allowance for funds used during construction	237,038	219,519
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,404	123,725
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$688,014	\$6,397,327
40			
41			
42	Rate of return B/	9.00%	6.99%
A/ All Other			
	Acquisition adjustment	\$0	\$0
	Accounts payable applicable to CWIP	34,298	53,825
	Unpaid for materials and supplies	51,159	50,084
	Taxes on CIAC-DEF. FIT & SIT	(263,987)	(277,218)
		(\$178,530)	(\$173,309)
B/ Rate of return - Monthly (L25 / L18) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$543,000	
	Incidental collection	(1,981,081)	
	Average cash	366,929	
	Other components	2,456,357	
	Working cash	\$1,385,205	

January 17, 2006

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$193,520
(2)	Revenues due to 3-9-05 rate increase	\$ 49,605

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,326	5,443	23	178	67,970
37. 3/4"	119	122	2	11	254
38. 1"	265	1,343	26	140	1,774
39. 1 1/2"	21	318	7	68	414
40. 2"	18	1,032	88	281	1,419
41. 3"	1	45		4	50
42. 4"&Over		30	29	35	94
43. Totals	62,750	8,333	175	717	71,975

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 1-19, 2006

(Signed)

Title and Address:

Michael A. Melt
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

WATER COMPANIES

Company Name: Tennessee-American Water Co.
 Month of Report: October 2005

PSC-3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,166,297	987,197	10,918,293	10,362,981	13,107,247	12,756,159
2. Commercial Sales.....	853,046	885,821	8,150,032	7,860,483	9,853,520	9,659,122
3. Industrial Sales.....	309,161	262,569	2,647,166	2,519,479	3,166,576	3,137,990
4. Other Sales.....	479,146	458,179	5,097,519	5,502,885	6,295,559	6,579,191
5. Total Operating Revenues (Item 1-4).....	2,807,650	2,593,766	26,813,010	26,245,828	32,422,902	32,132,462
Operating Expenses						
6. Source of Supply Expense.....	44,003	12,955	201,507	159,093	177,414	163,929
7. Pumping and Water Treatment Expense.....	295,667	335,333	3,158,414	3,318,238	3,829,537	4,080,360
8. Transmission and Distribution-Operation.....	46,810	48,188	585,654	521,944	697,251	613,618
9. Transmission and Distribution-Maintenance.....	120,377	83,211	1,077,347	880,291	1,234,400	1,041,807
10. Customer Accounts and Sales Expense.....	192,031	92,702	1,331,864	1,206,805	1,518,458	1,298,402
11. Administrative and General Expense.....	791,752	650,876	8,012,074	7,504,346	9,902,367	8,750,820
12. Depreciation and Amortization.....	334,514	277,092	3,241,880	3,192,942	3,803,267	4,056,623
13. Taxes Other Than Income Taxes.....	276,085	295,420	2,297,621	2,957,069	2,888,694	3,599,812
14. Income Taxes.....	211,104	242,524	1,997,937	1,811,945	2,453,438	2,530,414
15. Total Operating Expenses (Item 6-14).....	2,312,342	2,038,301	21,904,298	21,552,673	26,504,826	26,135,785
16. Net Operating Income (Item 5 less 15).....	495,308	555,465	4,908,712	4,693,155	5,918,076	5,996,677
17. Other Income.....	1,752	2,109	(13,153)	(56,295)	3,898	40,094
18. Miscellaneous Income Deductions.....	(1,470)	2,997	12,300	(7,181)	12,407	38,285
19. Interest Charges.....	240,784	238,926	2,392,782	2,260,941	2,867,013	2,648,723
20. Net Income.....	257,745	315,651	2,490,477	2,383,100	3,042,554	3,349,763
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
21. Utility Plant In Service.....(1).....	163,693,851	154,097,435	159,325,622	152,438,733		
22. Construction Work in Progress.....	5,542,090	5,192,826	5,181,658	3,883,738		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	49,916,858	48,413,725	48,881,541	46,884,808		
26. Materials and Supplies.....	327,956	389,651	352,870	385,033		
27. Unamortized Investment Credit.....	1,281,731	1,358,099	1,316,733	1,399,465		
28. Deferred Income Tax.....	16,665,821	14,013,739	15,906,267	13,351,168		
29. Contributions in Aid of Construction.....	6,877,444	6,117,558	6,591,244	6,021,713		
30. Customer Advances for Construction.....	4,275,205	3,373,388	3,717,558	3,149,145		
31. Preferred Stock.....	1,382,100	1,399,600	1,390,850	1,419,206		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,785,636		
34. Retained Earnings.....	19,998,063	19,455,185	19,584,566	18,597,582		
35. Long Term Debt.....(1).....	40,003,839	43,299,253	41,919,020	37,005,339		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED OCTOBER 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$158,337,883	\$157,735,122
3	Plant Under Construction	5,335,619	5,181,658
4	Property Held For Future Use	0	0
5	Materials and Supplies	343,271	352,870
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,475	5,806
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	166,997,953	166,251,161
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,930,700	48,881,541
16	Accumulated Deferred Income Taxes	16,291,945	15,906,267
17	Unamortized Investment Credit - Pre 1971	45,604	45,862
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,655,330	6,591,244
21	Customer Advances for Construction	3,767,925	3,717,558
22	All Other A/	(183,228)	(188,437)
23			
24			
25			
26	Total Deductions	75,508,276	74,954,035
27			
28	Rate Base	\$91,489,677	\$91,297,126
29			
30	Net Operating Income	\$495,308	\$5,918,076
31	Adjustments to NOI		
32	Allowance for funds used during construction	237,038	202,692
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,380	123,467
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$742,726	\$6,244,235
40			
41			
42	Rate of return B/	9.74%	6.84%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	28,565	53,825
Unpaid for materials and supplies	54,471	50,084
Taxes on CIAC-DEF. FIT & SIT	(266,264)	(292,346)
	(\$183,228)	(\$188,437)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,485	5,458	23	177	68,143
37. 3/4"	120	121	2	11	254
38. 1"	277	1,351	27	139	1,794
39. 1 1/2"	21	316	7	68	412
40. 2"	18	1,027	88	279	1,412
41. 3"	1	45		4	50
42. 4"&Over		30	29	35	94
43. Totals	62,922	8,348	176	713	72,159

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

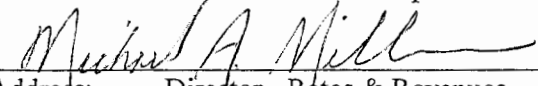
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12-27, 20 05

(Signed)

Title and Address:


Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: September 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,019,416	1,079,209	9,751,997	9,375,784	12,928,148	12,787,194
2. Commercial Sales.....	804,321	717,799	7,296,986	6,974,662	9,886,295	9,573,318
3. Industrial Sales.....	226,085	305,011	2,338,005	2,256,910	3,119,984	3,166,669
4. Other Sales.....	519,716	650,324	4,618,373	5,044,706	6,274,592	6,715,243
5. Total Operating Revenues (Item 1-4).....	2,569,538	2,752,343	24,005,361	23,652,062	32,209,019	32,242,424
Operating Expenses						
6. Source of Supply Expense.....	731	1,678	157,504	146,138	146,366	153,583
7. Pumping and Water Treatment Expense.....	357,473	311,427	2,862,747	2,982,905	3,869,203	4,102,413
8. Transmission and Distribution-Operation.....	51,683	51,081	538,844	473,756	698,628	644,400
9. Transmission and Distribution-Maintenance.....	114,528	81,760	956,970	797,079	1,197,235	1,059,091
10. Customer Accounts and Sales Expense.....	121,376	156,127	1,139,833	1,114,104	1,419,129	1,337,801
11. Administrative and General Expense.....	817,922	633,382	7,220,322	6,853,471	9,761,491	8,772,749
12. Depreciation and Amortization.....	332,414	277,110	2,907,366	2,915,850	3,745,845	4,091,834
13. Taxes Other Than Income Taxes.....	276,047	296,971	2,021,536	2,661,649	2,908,029	3,613,417
14. Income Taxes.....	116,708	294,472	1,786,834	1,569,421	2,484,859	2,539,139
15. Total Operating Expenses (Item 6-14).....	2,188,883	2,104,008	19,591,956	19,514,373	26,230,785	26,314,427
16. Net Operating Income (Item 5 less 15).....	380,656	648,335	4,413,405	4,137,689	5,978,234	5,927,997
17. Other Income.....	245	(1,912)	(14,905)	(58,404)	4,255	43,409
18. Miscellaneous Income Deductions.....	7,704	6,168	13,770	(10,178)	16,874	39,274
19. Interest Charges.....	237,273	245,604	2,151,998	2,022,015	2,865,155	2,586,432
20. Net Income.....	135,923	394,651	2,232,732	2,067,448	3,100,460	3,345,700
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	162,683,113	153,895,512	158,525,920	151,746,812		
22. Construction Work in Progress.....	4,994,649	4,556,116	5,152,553	3,941,576		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	49,612,289	48,140,828	48,756,280	46,571,036		
26. Materials and Supplies.....	275,028	406,561	358,012	382,241		
27. Unamortized Investment Credit.....	1,288,095	1,364,463	1,323,097	1,405,829		
28. Deferred Income Tax.....	16,728,307	13,988,302	15,685,260	13,215,977		
29. Contributions in Aid of Construction.....	6,718,425	6,068,443	6,527,920	5,999,010		
30. Customer Advances for Construction.....	4,160,289	3,413,080	3,642,406	3,094,290		
31. Preferred Stock.....	1,382,100	1,399,600	1,392,308	1,422,156		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,785,188		
34. Retained Earnings.....	19,723,726	19,130,023	19,539,326	18,511,038		
35. Long Term Debt.....(1).....	40,013,017	43,306,347	42,193,638	35,422,006		

(1) Includes Capital Lease

November 21, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – September 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$397,082
(2)	Revenues due to 3-9-05 rate increase	\$ 80,428

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,551	5,477	23	177	68,228
37. 3/4"	122	119	3	11	255
38. 1"	277	1,351	27	139	1,794
39. 1 1/2"	21	315	7	68	411
40. 2"	18	1,035	88	281	1,422
41. 3"	1	43		4	48
42. 4"&Over		30	29	35	94
43. Totals	62,990	8,370	177	715	72,252

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12-1, 2005

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: August 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,205,909	1,053,159	8,732,581	8,296,575	12,987,941	12,925,783
2. Commercial Sales.....	887,817	842,645	6,492,666	6,256,863	9,799,774	9,791,703
3. Industrial Sales.....	260,726	225,987	2,111,920	1,951,899	3,198,910	3,163,194
4. Other Sales.....	514,419	516,812	4,098,657	4,394,382	6,405,200	6,768,331
5. Total Operating Revenues (Item 1-4).....	2,868,871	2,638,603	21,435,824	20,899,719	32,391,825	32,649,011
Operating Expenses						
6. Source of Supply Expense.....	45,511	29,404	156,772	144,460	147,313	155,118
7. Pumping and Water Treatment Expense.....	385,518	404,636	2,505,274	2,671,477	3,823,157	4,192,238
8. Transmission and Distribution-Operation.....	49,972	46,856	487,161	422,676	698,026	709,196
9. Transmission and Distribution-Maintenance.....	99,654	72,402	842,442	715,319	1,164,467	1,100,513
10. Customer Accounts and Sales Expense.....	128,425	83,640	1,018,458	957,977	1,453,880	1,296,719
11. Administrative and General Expense.....	829,962	710,831	6,402,400	6,220,089	9,576,951	8,886,506
12. Depreciation and Amortization.....	324,371	276,721	2,574,952	2,638,740	3,690,541	4,126,813
13. Taxes Other Than Income Taxes.....	275,709	300,223	1,745,489	2,364,678	2,928,953	3,625,354
14. Income Taxes.....	217,480	216,250	1,670,126	1,274,949	2,662,623	2,610,579
15. Total Operating Expenses (Item 6-14).....	2,356,603	2,140,963	17,403,074	17,410,365	26,145,911	26,703,036
16. Net Operating Income (Item 5 less 15).....	512,268	497,640	4,032,750	3,489,354	6,245,914	5,945,975
17. Other Income.....	23	(712)	(15,150)	(56,492)	2,098	50,578
18. Miscellaneous Income Deductions.....	(1,120)	(6,344)	6,065	(16,346)	15,337	41,480
19. Interest Charges.....	247,490	225,010	1,914,725	1,776,411	2,873,486	2,512,641
20. Net Income.....	265,921	278,262	2,096,810	1,672,797	3,359,189	3,442,432
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	160,396,458	153,444,634	157,793,620	151,057,764		
22. Construction Work in Progress.....	5,971,609	6,421,469	5,116,008	4,022,062		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	49,279,366	47,857,053	48,633,659	46,259,169		
26. Materials and Supplies.....	342,094	444,622	368,973	377,604		
27. Unamortized Investment Credit.....	1,294,459	1,370,827	1,329,461	1,412,193		
28. Deferred Income Tax.....	16,748,187	14,014,018	15,456,926	13,068,957		
29. Contributions in Aid of Construction.....	6,714,615	6,076,186	6,473,755	5,958,490		
30. Customer Advances for Construction.....	3,680,878	3,338,974	3,580,139	3,040,315		
31. Preferred Stock.....	1,382,100	1,399,600	1,393,767	1,425,106		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,784,741		
34. Retained Earnings.....	20,215,863	19,364,443	19,489,850	18,422,637		
35. Long Term Debt.....(1).....	40,022,123	43,321,613	42,468,082	33,845,415		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED AUGUST 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$157,522,859	\$156,203,120
3	Plant Under Construction	5,352,431	5,116,008
4	Property Held For Future Use	0	0
5	Materials and Supplies	353,716	368,973
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,806	6,470
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	166,210,517	164,670,276
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,722,232	48,633,659
16	Accumulated Deferred Income Taxes	16,190,665	15,456,926
17	Unamortized Investment Credit - Pre 1971	45,862	46,378
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,619,679	6,473,755
21	Customer Advances for Construction	3,655,470	3,580,139
22	All Other A/	(202,484)	(218,693)
23			
24			
25			
26	Total Deductions	75,031,424	73,972,164
27			
28	Rate Base	\$91,179,093	\$90,698,112
29			
30	Net Operating Income	\$512,268	\$6,245,914
31	Adjustments to NOI		
32	Allowance for funds used during construction	23,551	187,830
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,345	122,988
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$546,164	\$6,556,732
40			
41			
42	Rate of return B/	7.19%	7.23%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	18,630	53,825
Unpaid for materials and supplies	51,411	50,084
Taxes on CIAC-DEF. FIT & SIT	(272,525)	(322,602)
	(\$202,484)	(\$218,693)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

October 21, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – August 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$458,251
(2)	Revenues due to 3-9-05 rate increase	\$ 95,587

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,461	5,486	23	177	68,147
37. 3/4"	121	115	3	11	250
38. 1"	274	1,353	27	141	1,795
39. 1 1/2"	21	314	7	68	410
40. 2"	18	1,029	88	280	1,415
41. 3"	1	40		4	45
42. 4"&Over		29	29	35	93
43. Totals	62,896	8,366	177	716	72,155

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10-30, 20 05

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: July 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,206,078	1,281,757	7,526,671	7,243,416	12,835,190	12,837,917
2. Commercial Sales.....	825,640	886,019	5,604,849	5,414,218	9,754,602	9,697,793
3. Industrial Sales.....	278,193	221,934	1,851,194	1,725,912	3,164,171	3,188,171
4. Other Sales.....	563,539	571,140	3,584,238	3,877,570	6,407,593	6,692,976
5. Total Operating Revenues (Item 1-4).....	2,873,451	2,960,850	18,566,952	18,261,116	32,161,556	32,416,857
Operating Expenses						
6. Source of Supply Expense.....	24,255	22,929	111,261	115,056	131,205	126,141
7. Pumping and Water Treatment Expense.....	361,861	353,432	2,119,757	2,266,841	3,842,276	4,133,688
8. Transmission and Distribution-Operation.....	57,359	51,558	437,189	375,820	694,909	743,978
9. Transmission and Distribution-Maintenance.....	87,829	71,573	742,787	642,917	1,137,215	1,132,215
10. Customer Accounts and Sales Expense.....	126,002	166,940	890,033	874,337	1,409,095	1,317,166
11. Administrative and General Expense.....	754,989	754,008	5,572,438	5,509,258	9,457,819	8,806,609
12. Depreciation and Amortization.....	324,717	276,315	2,250,581	2,362,019	3,642,891	4,162,288
13. Taxes Other Than Income Taxes.....	274,778	300,701	1,469,780	2,064,455	2,953,467	3,638,735
14. Income Taxes.....	285,708	310,479	1,452,645	1,058,699	2,661,392	2,538,059
15. Total Operating Expenses (Item 6-14).....	2,297,499	2,307,935	15,046,471	15,269,402	25,930,269	26,598,879
16. Net Operating Income (Item 5 less 15).....	575,951	652,915	3,520,481	2,991,714	6,231,287	5,817,978
17. Other Income.....	(1,765)	(15,012)	(15,172)	(55,780)	1,364	47,124
18. Miscellaneous Income Deductions.....	6,401	(7,491)	7,185	(10,002)	10,113	48,212
19. Interest Charges.....	204,192	236,547	1,667,236	1,551,401	2,851,007	2,475,244
20. Net Income.....	363,593	408,847	1,830,888	1,394,535	3,371,531	3,341,646
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	159,853,805	153,315,366	157,214,301	150,398,059		
22. Construction Work in Progress.....	6,133,139	5,530,606	5,153,496	3,882,405		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	49,025,463	47,582,434	48,515,133	45,948,381		
26. Materials and Supplies.....	301,263	423,157	377,517	374,447		
27. Unamortized Investment Credit.....	1,300,823	1,377,191	1,335,825	1,418,557		
28. Deferred Income Tax.....	16,845,812	14,011,550	15,229,079	12,905,146		
29. Contributions in Aid of Construction.....	6,726,440	6,073,460	6,420,552	5,915,206		
30. Customer Advances for Construction.....	3,480,403	3,353,923	3,551,647	2,992,872		
31. Preferred Stock.....	1,382,100	1,399,600	1,395,225	1,427,389		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,784,293		
34. Retained Earnings.....	19,932,150	19,079,510	19,418,899	18,313,829		
35. Long Term Debt.....(1).....	40,040,004	43,321,613	42,743,040	32,267,552		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JULY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$157,339,559	\$155,623,801
3	Plant Under Construction	5,263,977	5,153,496
4	Property Held For Future Use	0	0
5	Materials and Supplies	355,377	377,517
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	5,972	6,802
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,940,590	164,137,321
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,642,641	48,515,133
16	Accumulated Deferred Income Taxes	16,111,018	15,229,079
17	Unamortized Investment Credit - Pre 1971	45,991	46,636
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,606,117	6,420,552
21	Customer Advances for Construction	3,651,840	3,551,647
22	All Other A/	(204,998)	(233,822)
23			
24			
25			
26	Total Deductions	74,852,609	73,529,225
27			
28	Rate Base	\$91,087,981	\$90,608,096
29			
30	Net Operating Income	\$575,951	\$6,231,287
31	Adjustments to NOI		
32	Allowance for funds used during construction	23,553	176,701
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	10,335	122,775
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$609,839	\$6,530,763
40			
41			
42	Rate of return B/	8.03%	7.21%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF. FIT & SIT	(276,998)	(337,731)
	(\$204,998)	(\$233,822)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,204	5,486	23	178	67,891
37. 3/4"	120	111	3	11	245
38. 1"	274	1,349	27	141	1,791
39. 1 1/2"	21	313	7	68	409
40. 2"	18	1,031	88	280	1,417
41. 3"	1	33		4	38
42. 4"&Over		29	29	35	93
43. Totals	62,638	8,352	177	717	71,884

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10-4-, 20 05

(Signed)

Title and Address:

Michael P. A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: June 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,226,406	1,192,382	6,320,593	5,961,659	12,910,869	12,574,456
2. Commercial Sales.....	969,855	859,963	4,779,209	4,528,199	9,814,981	9,528,880
3. Industrial Sales.....	308,276	356,371	1,573,000	1,503,978	3,107,911	3,206,043
4. Other Sales.....	506,263	660,406	3,020,698	3,306,430	6,415,193	6,563,257
5. Total Operating Revenues (Item 1-4).....	3,010,800	3,069,122	15,693,500	15,300,266	32,248,954	31,872,636
Operating Expenses						
6. Source of Supply Expense.....	20,187	6,684	87,005	92,127	129,879	103,337
7. Pumping and Water Treatment Expense.....	362,650	385,856	1,757,896	1,913,409	3,833,847	4,107,573
8. Transmission and Distribution-Operation.....	80,971	58,834	379,829	324,262	689,108	791,152
9. Transmission and Distribution-Maintenance.....	138,505	99,115	654,958	571,344	1,120,959	1,142,022
10. Customer Accounts and Sales Expense.....	140,768	153,004	764,031	707,397	1,450,033	1,313,770
11. Administrative and General Expense.....	634,151	796,153	4,817,449	4,755,250	9,456,838	8,575,370
12. Depreciation and Amortization.....	323,554	80,830	1,925,864	2,085,704	3,594,489	4,198,153
13. Taxes Other Than Income Taxes.....	286,161	312,432	1,195,002	1,763,754	2,979,390	3,647,171
14. Income Taxes.....	338,569	396,276	1,166,937	748,220	2,686,163	2,412,745
15. Total Operating Expenses (Item 6-14).....	2,325,517	2,289,184	12,748,971	12,961,467	25,940,706	26,291,293
16. Net Operating Income (Item 5 less 15).....	685,283	779,938	2,944,529	2,338,799	6,308,248	5,581,343
17. Other Income.....	3,376	(18,225)	(13,407)	(40,768)	(11,883)	56,544
18. Miscellaneous Income Deductions.....	(2,288)	(7,042)	784	(2,511)	(3,779)	53,058
19. Interest Charges.....	258,052	239,611	1,463,043	1,314,854	2,883,361	2,416,384
20. Net Income.....	432,895	529,144	1,467,295	985,688	3,416,783	3,168,445
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	159,519,461	152,965,672	156,669,432	149,745,081		
22. Construction Work in Progress.....	6,022,838	5,040,412	5,103,285	3,761,244		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.(1).....	48,712,925	47,365,821	48,394,880	45,639,025		
26. Materials and Supplies.....	302,529	410,771	387,675	370,960		
27. Unamortized Investment Credit.....	1,307,187	1,383,555	1,342,189	1,424,921		
28. Deferred Income Tax.....	16,818,063	13,721,826	14,992,890	12,727,227		
29. Contributions in Aid of Construction.....	6,684,062	6,077,516	6,366,137	5,867,893		
30. Customer Advances for Construction.....	3,523,171	3,401,124	3,541,107	2,947,668		
31. Preferred Stock.....	1,382,100	1,399,600	1,396,683	1,429,673		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,788,768	4,788,768	4,783,846		
34. Retained Earnings.....	19,550,762	18,666,151	19,347,845	18,212,296		
35. Long Term Debt.....(1).....	40,040,046	43,327,917	43,016,507	30,690,752		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$157,185,601	\$155,078,932
3	Plant Under Construction	5,119,117	5,103,285
4	Property Held For Future Use	0	0
5	Materials and Supplies	364,396	387,676
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,138	7,133
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,650,957	163,552,730
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,578,837	48,394,880
16	Accumulated Deferred Income Taxes	15,988,553	14,992,890
17	Unamortized Investment Credit - Pre 1971	46,120	46,894
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,586,063	6,366,137
21	Customer Advances for Construction	3,680,413	3,541,107
22	All Other A/	(217,926)	(248,950)
23			
24			
25			
26	Total Deductions	74,662,060	73,092,958
27			
28	Rate Base	\$90,988,897	\$90,459,772
29			
30	Net Operating Income	\$685,283	\$6,308,248
31	Adjustments to NOI		
32	Allowance for funds used during construction	20,555	163,559
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,323	122,543
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$716,161	\$6,594,350
40			
41			
42	Rate of return B/	9.45%	7.29%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(282,962)	(352,859)
	<u>(\$217,926)</u>	<u>(\$248,950)</u>

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	<u>2,456,357</u>
Working cash	<u>\$1,385,205</u>

August 17, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$580,587
(2)	Revenues due to 3-9-05 rate increase	\$126,915

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	62,116	5,487	24	177	67,804
37. 3/4"	118	111	3	11	243
38. 1"	272	1,348	27	141	1,788
39. 1 1/2"	21	311	7	68	407
40. 2"	18	1,028	88	280	1,414
41. 3"		38		4	42
42. 4"&Over		29	29	35	93
43. Totals	62,545	8,352	178	716	71,791

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 8/25, 20 05

(Signed)

Title and Address:

Michael A. Mill

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: May 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,184,019	1,087,132	5,094,187	4,769,277	12,876,845	12,318,217
2. Commercial Sales.....	868,102	836,044	3,809,353	3,668,236	9,705,088	9,377,069
3. Industrial Sales.....	293,983	227,203	1,264,725	1,147,607	3,156,007	3,170,719
4. Other Sales.....	531,634	516,305	2,514,436	2,646,024	6,569,337	6,397,446
5. Total Operating Revenues (Item 1-4).....	2,877,739	2,666,684	12,682,701	12,231,144	32,307,277	31,263,451
Operating Expenses						
6. Source of Supply Expense.....	11,112	54,348	66,819	85,443	116,376	96,729
7. Pumping and Water Treatment Expense.....	321,447	274,576	1,395,245	1,527,553	3,857,053	4,107,713
8. Transmission and Distribution-Operation.....	43,302	31,933	298,858	265,428	666,971	886,875
9. Transmission and Distribution-Maintenance.....	100,286	54,943	516,454	472,229	1,081,569	1,184,514
10. Customer Accounts and Sales Expense.....	123,559	101,223	623,263	554,393	1,462,269	1,304,013
11. Administrative and General Expense.....	803,150	895,786	4,183,297	3,959,097	9,618,840	8,322,014
12. Depreciation and Amortization.....	324,468	402,015	1,602,310	2,004,874	3,351,765	4,429,466
13. Taxes Other Than Income Taxes.....	167,560	288,634	908,841	1,451,322	3,005,661	3,647,919
14. Income Taxes.....	321,248	123,034	828,369	351,944	2,743,871	2,139,398
15. Total Operating Expenses (Item 6-14).....	2,216,132	2,226,492	10,423,456	10,672,283	25,904,375	26,118,641
16. Net Operating Income (Item 5 less 15).....	661,607	440,192	2,259,245	1,558,861	6,402,902	5,144,810
17. Other Income.....	(5,262)	(11,396)	(16,784)	(22,543)	(33,485)	70,834
18. Miscellaneous Income Deductions.....	(1,639)	11,798	3,072	4,531	(8,533)	68,662
19. Interest Charges.....	246,335	245,461	1,204,991	1,075,243	2,864,920	2,359,826
20. Net Income.....	411,649	171,537	1,034,398	456,544	3,513,030	2,787,156
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	159,167,540	152,749,271	156,123,282	149,101,618		
22. Construction Work in Progress.....	5,716,485	3,859,370	5,021,417	3,670,234		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	48,461,797	47,312,616	48,282,621	45,322,658		
26. Materials and Supplies.....	301,173	335,291	396,695	367,733		
27. Unamortized Investment Credit.....	1,313,551	1,389,919	1,348,553	1,431,285		
28. Deferred Income Tax.....	16,606,879	13,345,690	14,734,870	12,563,443		
29. Contributions in Aid of Construction.....	6,670,068	6,009,673	6,315,592	5,819,598		
30. Customer Advances for Construction.....	3,705,719	3,297,107	3,530,936	2,890,573		
31. Preferred Stock.....	1,382,100	1,422,470	1,398,142	1,431,956		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,788,768	4,783,398		
34. Retained Earnings.....	19,601,879	18,233,081	19,274,128	18,123,862		
35. Long Term Debt.....(1).....	43,265,788	43,334,170	43,290,496	29,113,952		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$157,036,929	\$154,532,782
3	Plant Under Construction	4,938,373	5,021,417
4	Property Held For Future Use	0	0
5	Materials and Supplies	376,769	396,695
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,304	7,465
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,334,080	162,934,064
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,552,020	48,282,622
16	Accumulated Deferred Income Taxes	15,822,651	14,734,870
17	Unamortized Investment Credit - Pre 1971	46,249	47,152
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,566,463	6,315,592
21	Customer Advances for Construction	3,711,861	3,530,936
22	All Other A/	(218,312)	(262,434)
23			
24			
25			
26	Total Deductions	74,480,932	72,648,738
27			
28	Rate Base	\$90,853,148	\$90,285,326
29			
30	Net Operating Income	\$661,607	\$6,402,902
31	Adjustments to NOI		
32	Allowance for funds used during construction	18,984	152,424
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,308	122,300
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$690,899	\$6,677,626
40			
41			
42	Rate of return B/	9.13%	7.40%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF, FIT & SIT	(287,363)	(366,343)
	(\$218,312)	(\$262,434)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

July 19, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$641,755
(2)	Revenues due to 3-9-05 rate increase (March, April & May)	\$472,709

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,952	5,482	23	177	67,634
37. 3/4"	113	109	3	11	236
38. 1"	263	1,332	27	141	1,763
39. 1 1/2"	21	310	7	67	405
40. 2"	18	1,019	88	280	1,405
41. 3"		37		4	41
42. 4"&Over		30	29	35	94
43. Totals	62,367	8,319	177	715	71,578

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: July 28, 20 05

(Signed)

Title and Address:

Michael A. Miller

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

PSC--3.06

Company Name: Tennessee-American Water Co.

Month of Report: April 2005

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,050,736	1,028,762	3,910,168	3,682,145	12,779,958	12,190,821
2. Commercial Sales.....	746,149	720,433	2,941,252	2,832,192	9,673,031	9,336,689
3. Industrial Sales.....	199,307	239,596	970,741	920,404	3,089,226	3,178,776
4. Other Sales.....	455,399	546,232	1,982,802	2,129,719	6,554,008	6,339,150
5. Total Operating Revenues (Item 1-4).....	2,451,590	2,535,023	9,804,963	9,564,460	32,096,223	31,045,436
Operating Expenses						
6. Source of Supply Expense.....	5,704	14,947	55,707	31,095	159,612	42,436
7. Pumping and Water Treatment Expense.....	281,509	299,096	1,073,798	1,252,977	3,810,182	4,123,026
8. Transmission and Distribution-Operation.....	51,910	49,169	255,556	233,495	655,602	958,977
9. Transmission and Distribution-Maintenance.....	121,659	72,669	416,167	417,286	1,036,225	1,226,826
10. Customer Accounts and Sales Expense.....	130,373	102,786	499,704	453,170	1,439,933	1,306,154
11. Administrative and General Expense.....	1,033,129	832,242	3,380,147	3,063,311	9,711,475	8,033,323
12. Depreciation and Amortization.....	323,601	401,278	1,277,842	1,602,859	3,429,312	4,339,126
13. Taxes Other Than Income Taxes.....	293,500	301,678	741,281	1,162,688	3,126,735	3,659,230
14. Income Taxes.....	(7,353)	106,917	507,121	228,910	2,545,657	2,207,077
15. Total Operating Expenses (Item 6-14).....	2,234,033	2,180,782	8,207,323	8,445,791	25,914,733	25,896,175
16. Net Operating Income (Item 5 less 15).....	217,557	354,241	1,597,640	1,118,669	6,181,490	5,149,261
17. Other Income.....	(3,115)	7,887	(11,521)	(11,147)	(39,618)	104,915
18. Miscellaneous Income Deductions.....	1,298	(5,164)	4,711	(7,267)	4,904	56,999
19. Interest Charges.....	240,410	224,281	958,657	829,782	2,864,047	2,337,189
20. Net Income.....	(27,266)	143,011	622,751	285,007	3,272,921	2,859,988
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	158,937,009	152,166,186	155,588,427	148,469,504		
22. Construction Work in Progress.....	5,504,144	3,433,865	4,866,657	3,658,785		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	48,127,631	46,921,258	48,186,856	45,000,099		
26. Materials and Supplies.....	344,783	382,811	399,538	370,523		
27. Unamortized Investment Credit.....	1,319,915	1,396,283	1,354,917	1,437,649		
28. Deferred Income Tax.....	16,352,661	13,479,041	14,463,105	12,424,944		
29. Contributions in Aid of Construction.....	6,616,720	6,004,930	6,260,559	5,776,700		
30. Customer Advances for Construction.....	3,768,433	3,306,393	3,496,885	2,842,301		
31. Preferred Stock.....	1,399,600	1,435,000	1,401,506	1,434,578		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,788,321	4,783,278		
34. Retained Earnings.....	19,176,480	18,060,930	19,160,061	18,074,762		
35. Long Term Debt.....(1).....	43,255,495	43,347,757	43,296,195	28,287,152		

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY
SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

Page 2

FOR THE MONTH ENDED APRIL 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$156,901,901	\$153,997,927
3	Plant Under Construction	4,743,845	4,866,657
4	Property Held For Future Use	0	0
5	Materials and Supplies	395,668	399,538
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,470	7,797
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	165,023,589	162,247,624
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	48,574,576	48,186,857
16	Accumulated Deferred Income Taxes	15,626,594	14,463,105
17	Unamortized Investment Credit - Pre 1971	46,378	47,410
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,540,562	6,260,559
21	Customer Advances for Construction	3,713,397	3,496,885
22	All Other A/	(221,021)	(275,785)
23			
24			
25			
26	Total Deductions	74,280,486	72,179,031
27			
28	Rate Base	\$90,743,103	\$90,068,593
29			
30	Net Operating Income	\$217,557	\$6,181,490
31	Adjustments to NOI		
32	Allowance for funds used during construction	17,162	140,018
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,296	122,030
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$245,015	\$6,443,538
40			
41			
42	Rate of return B/	3.24%	7.15%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	17,637	53,825
Unpaid for materials and supplies	54,908	50,084
Taxes on CIAC-DEF, FIT & SIT	(293,566)	(379,694)
	<u>(\$221,021)</u>	<u>(\$275,785)</u>

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	<u>2,456,357</u>
Working cash	<u>\$1,385,205</u>

May 18, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – April 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	\$702,923

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,836	5,492	22	177	67,527
37. 3/4"	110	108	3	11	232
38. 1"	254	1,329	27	139	1,749
39. 1 1/2"	21	308	7	67	403
40. 2"	18	1,017	89	281	1,405
41. 3"		39		4	43
42. 4"&Over		30	29	35	94
43. Totals	62,239	13	177	714	71,453

INSTRUCTIONS

1. This report is required of all water companies had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a correct report:

Date: _____ (Signed) _____
 Title and Address: _____

Water Rates & Revenues
 Street, P. O. Box 6338
 TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: March 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	919,402	1,075,178	2,859,432	2,653,383	12,757,984	12,127,672
2. Commercial Sales.....	819,687	820,628	2,195,103	2,111,759	9,647,315	9,355,086
3. Industrial Sales.....	294,384	243,927	771,435	680,808	3,129,516	3,227,599
4. Other Sales.....	571,762	590,593	1,527,403	1,583,487	6,644,841	6,269,902
5. Total Operating Revenues (Item 1-4).....	2,605,234	2,730,326	7,353,373	7,029,437	32,179,656	30,980,259
Operating Expenses						
6. Source of Supply Expense.....	14,773	9,769	50,003	16,148	168,855	29,501
7. Pumping and Water Treatment Expense.....	304,702	361,850	792,289	953,881	3,827,768	4,051,476
8. Transmission and Distribution-Operation.....	56,283	59,643	203,646	184,326	652,861	1,002,542
9. Transmission and Distribution-Maintenance.....	112,547	113,806	294,508	344,617	987,236	1,247,872
10. Customer Accounts and Sales Expense.....	96,422	113,552	369,331	350,384	1,412,346	1,274,394
11. Administrative and General Expense.....	857,310	793,813	2,347,018	2,231,069	9,510,588	7,939,063
12. Depreciation and Amortization.....	233,213	400,893	954,241	1,201,581	3,506,989	4,249,881
13. Taxes Other Than Income Taxes.....	(162,138)	317,465	447,781	861,010	3,134,913	3,656,669
14. Income Taxes.....	369,824	145,121	514,474	121,993	2,659,927	2,271,742
15. Total Operating Expenses (Item 6-14).....	1,882,935	2,315,912	5,973,291	6,265,009	25,861,483	25,723,140
16. Net Operating Income (Item 5 less 15).....	722,299	414,414	1,380,082	764,428	6,318,173	5,257,119
17. Other Income.....	4,963	13,176	(8,406)	(19,034)	(28,616)	75,784
18. Miscellaneous Income Deductions.....	3,085	345	3,413	(2,103)	(1,558)	63,000
19. Interest Charges.....	241,019	238,803	718,247	605,501	2,847,918	2,334,975
20. Net Income.....	483,158	188,442	650,016	141,996	3,443,197	2,934,928
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	158,659,251	151,936,183	155,024,191	147,871,720		
22. Construction Work in Progress.....	5,048,163	3,059,985	4,694,134	3,668,060		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	47,794,357	46,581,675	48,086,325	44,686,750		
26. Materials and Supplies.....	361,032	393,049	402,707	368,483		
27. Unamortized Investment Credit.....	1,326,279	1,402,647	1,361,281	1,444,013		
28. Deferred Income Tax.....	16,422,725	13,310,142	14,223,636	12,273,716		
29. Contributions in Aid of Construction.....	6,605,809	6,001,464	6,209,576	5,738,427		
30. Customer Advances for Construction.....	3,763,543	3,066,640	3,458,382	2,784,464		
31. Preferred Stock.....	1,399,600	1,435,000	1,404,456	1,436,157		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,787,873	4,783,158		
34. Retained Earnings.....	19,192,474	17,918,214	19,067,099	18,018,002		
35. Long Term Debt.....(1).....	43,262,932	43,347,758	43,303,883	27,459,710		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$156,753,699	\$153,433,691
3	Plant Under Construction	4,490,412	4,694,134
4	Property Held For Future Use	0	0
5	Materials and Supplies	412,630	402,707
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,636	8,129
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	164,821,795	161,697,079
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,723,557	48,086,325
16	Accumulated Deferred Income Taxes	15,384,571	14,223,636
17	Unamortized Investment Credit - Pre 1971	46,507	47,668
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,515,176	6,209,576
21	Customer Advances for Construction	3,695,051	3,458,382
22	All Other A/	(217,993)	(286,280)
23			
24			
25			
26	Total Deductions	74,146,869	71,739,307
27			
28	Rate Base	\$90,674,926	\$89,957,772
29			
30	Net Operating Income	\$722,299	\$6,318,173
31	Adjustments to NOI		
32	Allowance for funds used during construction	12,538	128,527
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,288	121,783
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$745,125	\$6,568,483
40			
41			
42	Rate of return B/	9.86%	7.30%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(292,482)	(390,189)
	<u>(\$217,993)</u>	<u>(\$286,280)</u>

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	<u>2,657,070</u>
Working cash	<u>\$1,567,918</u>

April 29, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$42,102)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,751	5,487	22	177	67,437
37. 3/4"	107	108	3	11	229
38. 1"	250	1,320	28	139	1,737
39. 1 1/2"	21	308	7	67	403
40. 2"	18	1,017	89	280	1,404
41. 3"		40		4	44
42. 4"&Over		30	30	35	95
43. Totals	62,147	8,310	179	713	71,349

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: May 25, 20 05

(Signed)

Title and Address:

Michael A. Melle

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: February 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	856,953	797,543	1,940,031	1,578,205	12,913,761	11,966,707
2. Commercial Sales.....	618,133	687,677	1,375,416	1,291,131	9,648,256	9,234,874
3. Industrial Sales.....	212,382	256,047	477,051	436,881	3,079,059	3,294,006
4. Other Sales.....	427,043	476,715	955,641	992,894	6,663,672	6,132,199
5. Total Operating Revenues (Item 1-4).....	2,114,511	2,217,982	4,748,139	4,299,111	32,304,748	30,627,786
Operating Expenses						
6. Source of Supply Expense.....	24,991	2,941	35,229	6,379	163,851	20,946
7. Pumping and Water Treatment Expense.....	278,935	318,673	487,587	592,031	3,884,917	3,959,598
8. Transmission and Distribution-Operation.....	71,009	42,536	147,363	124,683	656,221	1,051,692
9. Transmission and Distribution-Maintenance.....	91,016	100,324	181,962	230,811	988,495	1,261,374
10. Customer Accounts and Sales Expense.....	158,985	108,000	272,909	236,832	1,429,476	1,301,375
11. Administrative and General Expense.....	790,932	870,513	1,489,708	1,437,256	9,447,091	7,994,977
12. Depreciation and Amortization.....	439,130	400,479	721,028	800,688	3,674,669	4,158,733
13. Taxes Other Than Income Taxes.....	291,598	304,210	609,919	543,545	3,614,516	3,641,406
14. Income Taxes.....	(105,323)	(41,686)	144,650	(23,128)	2,435,224	2,152,931
15. Total Operating Expenses (Item 6-14).....	2,041,274	2,105,990	4,090,355	3,949,097	26,294,460	25,543,032
16. Net Operating Income (Item 5 less 15).....	73,237	111,992	657,784	350,014	6,010,288	5,084,754
17. Other Income.....	3,506	(17,676)	(13,369)	(32,210)	(20,403)	66,743
18. Miscellaneous Income Deductions.....	442	(6,699)	328	(2,448)	(4,298)	70,405
19. Interest Charges.....	237,863	174,494	477,228	366,698	2,845,702	2,321,718
20. Net Income.....	(161,562)	(73,479)	166,859	(46,446)	3,148,481	2,759,374
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	158,312,986	151,698,443	154,463,936	147,284,243		
22. Construction Work in Progress.....	4,387,895	2,547,501	4,528,452	3,696,097		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	49,388,133	46,186,686	47,985,268	44,379,192		
26. Materials and Supplies.....	456,438	368,647	405,375	364,586		
27. Unamortized Investment Credit.....	1,332,643	1,409,011	1,367,645	1,450,377		
28. Deferred Income Tax.....	14,940,157	12,631,530	13,964,254	12,110,482		
29. Contributions in Aid of Construction.....	6,503,776	5,988,467	6,159,214	5,700,193		
30. Customer Advances for Construction.....	3,627,753	2,898,217	3,400,306	2,742,746		
31. Preferred Stock.....	1,399,600	1,435,000	1,407,406	1,439,615		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,787,426	4,783,038		
34. Retained Earnings.....	19,369,317	18,615,581	18,960,911	17,988,399		
35. Long Term Debt.....(1).....	43,270,368	24,354,471	43,310,952	26,632,755		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED FEBRUARY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$156,596,172	\$152,873,436
3	Plant Under Construction	4,211,536	4,528,452
4	Property Held For Future Use	0	0
5	Materials and Supplies	438,428	405,375
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	6,802	8,461
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	164,411,356	160,974,142
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	49,188,157	47,985,268
16	Accumulated Deferred Income Taxes	14,865,495	13,964,254
17	Unamortized Investment Credit - Pre 1971	46,636	47,926
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,469,859	6,159,214
21	Customer Advances for Construction	3,660,805	3,400,306
22	All Other A/	(228,472)	(296,936)
23			
24			
25			
26	Total Deductions	74,002,480	71,260,032
27			
28	Rate Base	\$90,408,876	\$89,714,110
29			
30	Net Operating Income	\$73,237	\$6,010,288
31	Adjustments to NOI		
32	Allowance for funds used during construction	11,794	120,207
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,258	121,556
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$95,289	\$6,252,051
40			
41			
42	Rate of return B/	1.26%	6.97%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	8,313	53,825
Unpaid for materials and supplies	54,600	50,084
Taxes on CIAC-DEF. FIT & SIT	(291,285)	(400,845)
	(\$228,472)	(\$296,936)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

April 7, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2005 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases	(\$52,520)
(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,719	5,487	22	177	67,405
37. 3/4"	107	108	3	11	229
38. 1"	248	1,320	28	139	1,735
39. 1 1/2"	21	307	7	67	402
40. 2"	18	1,017	89	280	1,404
41. 3"		38	1	4	43
42. 4"&Over		30	30	35	95
43. Totals	62,113	8,307	180	713	71,313

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4/28, 20 05

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: January 2005

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,083,077	780,663	1,083,077	780,663	12,854,350	12,303,560
2. Commercial Sales.....	757,283	603,454	757,283	603,454	9,717,800	9,381,255
3. Industrial Sales.....	264,669	180,834	264,669	180,834	3,122,724	3,295,373
4. Other Sales.....	528,598	516,179	528,598	516,179	6,713,344	6,091,468
5. Total Operating Revenues (Item 1-4).....	2,633,628	2,081,130	2,633,627	2,081,130	32,408,218	31,071,656
Operating Expenses						
6. Source of Supply Expense.....	10,238	3,438	10,238	3,438	141,800	19,182
7. Pumping and Water Treatment Expense.....	208,652	273,358	208,652	273,358	3,924,655	3,934,794
8. Transmission and Distribution-Operation.....	76,353	82,146	76,353	82,146	627,747	1,108,331
9. Transmission and Distribution-Maintenance.....	90,946	130,487	90,946	130,487	997,803	1,284,281
10. Customer Accounts and Sales Expense.....	113,924	128,832	113,924	128,832	1,378,492	1,302,670
11. Administrative and General Expense.....	698,776	566,743	698,776	566,743	9,526,673	7,759,033
12. Depreciation and Amortization.....	281,898	400,209	281,898	400,209	3,636,018	4,069,311
13. Taxes Other Than Income Taxes.....	318,322	239,334	318,322	239,334	3,627,129	3,640,055
14. Income Taxes.....	249,972	18,558	249,972	18,558	2,498,860	2,438,184
15. Total Operating Expenses (Item 6-14).....	2,049,082	1,843,105	2,049,081	1,843,105	26,359,177	25,555,841
16. Net Operating Income (Item 5 less 15).....	584,546	238,025	584,546	238,025	6,049,041	5,515,815
17. Other Income.....	(16,874)	(14,534)	(16,874)	(14,534)	(41,584)	83,007
18. Miscellaneous Income Deductions.....	(113)	4,251	(113)	4,251	(11,438)	77,389
19. Interest Charges.....	239,364	192,204	239,364	192,204	2,782,332	2,369,811
20. Net Income.....	328,420	27,036	328,421	27,036	3,236,563	3,151,622
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	158,060,359	151,564,464	153,912,724	146,696,927		
22. Construction Work in Progress.....	4,035,178	2,319,445	4,375,086	3,754,133		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	48,988,181	45,800,950	47,718,481	44,079,173		
26. Materials and Supplies.....	420,418	359,831	398,059	362,824		
27. Unamortized Investment Credit.....	1,339,007	1,415,375	1,374,009	1,456,741		
28. Deferred Income Tax.....	14,790,833	12,880,991	13,771,869	12,037,424		
29. Contributions in Aid of Construction.....	6,435,942	5,990,564	6,116,272	5,658,951		
30. Customer Advances for Construction.....	3,693,857	2,844,652	3,339,512	2,719,464		
31. Preferred Stock.....	1,399,600	1,435,000	1,410,356	1,443,073		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,786,978	4,782,918		
34. Retained Earnings.....	19,524,975	18,668,998	18,898,099	17,896,175		
35. Long Term Debt.....(1).....	43,277,632	24,361,132	41,734,627	27,389,057		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JANUARY 2005

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$156,366,768	\$152,322,224
3	Plant Under Construction	3,753,878	4,375,086
4	Property Held For Future Use	0	0
5	Materials and Supplies	412,380	398,059
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	7,133	8,792
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	163,698,577	160,262,579
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	48,847,516	47,718,481
16	Accumulated Deferred Income Taxes	14,535,329	13,771,869
17	Unamortized Investment Credit - Pre 1971	46,894	48,184
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,427,603	6,116,272
21	Customer Advances for Construction	3,621,280	3,339,512
22	All Other A/	(170,593)	(307,911)
23			
24			
25			
26	Total Deductions	73,308,029	70,686,407
27			
28	Rate Base	\$90,390,548	\$89,576,172
29			
30	Net Operating Income	\$584,546	\$6,049,041
31	Adjustments to NOI		
32	Allowance for funds used during construction	8,401	111,510
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,256	121,375
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$603,203	\$6,281,926
40			
41			
42	Rate of return B/	8.01%	7.01%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(357,134)	(411,820)
	(\$170,593)	(\$307,911)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/05

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,379	5,482	23	174	67,058
37. 3/4"	107	107	3	11	228
38. 1"	245	1,310	29	138	1,722
39. 1 1/2"	20	307	7	65	399
40. 2"	18	1,014	89	281	1,402
41. 3"		36		3	39
42. 4"&Over		30	30	35	95
43. Totals	61,769	8,286	181	707	70,943

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 3-29, 20 05

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: December 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,357,818	1,573,255	12,551,935	12,108,737	12,551,935	12,108,737
2. Commercial Sales.....	1,124,319	1,202,083	9,563,971	9,227,658	9,563,971	9,227,658
3. Industrial Sales.....	317,022	407,875	3,038,889	3,289,109	3,038,889	3,289,109
4. Other Sales.....	634,380	606,030	6,700,925	5,916,258	6,700,925	5,916,258
5. Total Operating Revenues (Item 1-4).....	3,433,539	3,789,243	31,855,720	30,541,762	31,855,720	30,541,762
Operating Expenses						
6. Source of Supply Expense.....	(30,311)	1,753	135,000	16,755	135,000	16,755
7. Pumping and Water Treatment Expense.....	368,410	430,918	3,989,361	3,956,670	3,989,361	3,956,670
8. Transmission and Distribution-Operation.....	52,541	42,620	633,541	1,124,145	633,541	1,124,145
9. Transmission and Distribution-Maintenance.....	88,374	75,569	1,037,344	1,256,410	1,037,344	1,256,410
10. Customer Accounts and Sales Expense.....	102,877	(10,860)	1,393,399	1,321,646	1,393,399	1,321,646
11. Administrative and General Expense.....	1,187,854	694,465	9,394,639	7,590,799	9,394,639	7,590,799
12. Depreciation and Amortization.....	271,712	468,001	3,754,329	3,912,004	3,754,329	3,912,004
13. Taxes Other Than Income Taxes.....	295,485	339,349	3,548,142	3,664,656	3,548,142	3,664,656
14. Income Taxes.....	391,801	673,699	2,267,446	2,356,627	2,267,446	2,356,627
15. Total Operating Expenses (Item 6-14).....	2,728,742	2,715,514	26,153,201	25,199,712	26,153,201	25,199,712
16. Net Operating Income (Item 5 less 15).....	704,797	1,073,729	5,702,519	5,342,050	5,702,519	5,342,050
17. Other Income.....	15,547	105,987	(39,244)	100,041	(39,244)	100,041
18. Miscellaneous Income Deductions.....	563	44,416	(7,074)	73,536	(7,074)	73,536
19. Interest Charges.....	239,259	212,711	2,735,172	2,354,670	2,735,172	2,354,670
20. Net Income.....	480,522	922,589	2,935,177	3,013,885	2,935,177	3,013,885
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	157,854,177	151,528,217	153,371,399	146,111,309		
22. Construction Work in Progress.....	3,472,579	2,085,839	4,232,108	3,814,565		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	48,706,851	45,426,870	47,452,879	43,784,744		
26. Materials and Supplies.....	404,342	337,743	393,010	365,192		
27. Unamortized Investment Credit.....	1,345,371	1,421,739	1,380,373	1,463,105		
28. Deferred Income Tax.....	14,279,826	13,005,137	13,612,715	11,928,772		
29. Contributions in Aid of Construction.....	6,419,265	5,949,653	6,079,157	5,617,503		
30. Customer Advances for Construction.....	3,548,703	2,764,749	3,268,745	2,707,559		
31. Preferred Stock.....	1,399,600	1,435,000	1,413,306	1,446,532		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,786,531	4,782,798		
34. Retained Earnings.....	19,194,044	18,668,998	18,828,679	17,773,360		
35. Long Term Debt.....(1).....	43,284,896	24,367,740	40,158,252	28,145,282		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED DECEMBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$151,780,941	\$151,780,941
3	Plant Under Construction	4,232,108	4,232,108
4	Property Held For Future Use	0	0
5	Materials and Supplies	393,010	393,010
6	Other Additions:		
7	Leased Utility Plant	1,590,458	1,590,458
8	Unamortized Painting - net	9,124	9,124
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	159,573,559	159,573,559
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	47,452,879	47,452,878
16	Accumulated Deferred Income Taxes	13,612,715	13,612,715
17	Unamortized Investment Credit - Pre 1971	48,442	48,442
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,079,157	6,079,157
21	Customer Advances for Construction	3,268,745	3,268,745
22	All Other A/	(395,640)	(395,640)
23			
24			
25			
26	Total Deductions	70,066,298	70,066,297
27			
28	Rate Base	\$89,507,261	\$89,507,262
29			
30	Net Operating Income	\$704,797	\$5,702,519
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,143	104,970
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,155	121,212
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$724,095	\$5,928,701
40			
41			
42	Rate of return B/	9.71%	6.62%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(499,549)	(499,549)
	(\$395,640)	(\$395,640)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

February 4, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2004 Estimate
the effect on annual net operating income of very significant known changes occurring
within the period covered by the report, which are not fully reflected in the revenue and
expense amounts shown in the report.

Employee wage increases	(\$73,356)
(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,497	5,501	24	176	67,198
37. 3/4"	107	108	3	11	229
38. 1"	248	1,315	29	138	1,730
39. 1 1/2"	20	308	6	65	399
40. 2"	18	1,006	90	281	1,395
41. 3"		46		3	49
42. 4"&Over		30	30	35	95
43. Totals	61,890	8,314	182	709	71,095

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 3-1, 2005

(Signed)

Title and Address:

Michael A. Mill
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

B

PSC--3.06

Company Name: Tennessee-American Water Co.
Month of Report: November 2004

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	831,136	819,923	11,194,117	10,535,482	12,767,372	11,463,990
2. Commercial Sales.....	579,169	596,556	8,439,652	8,025,575	9,641,735	8,677,034
3. Industrial Sales.....	202,388	210,636	2,721,867	2,881,234	3,129,742	3,075,050
4. Other Sales.....	563,660	470,275	6,066,545	5,310,227	6,672,575	5,724,652
5. Total Operating Revenues (Item 1-4).....	2,176,353	2,097,390	28,422,181	26,752,518	32,211,424	28,940,726
Operating Expenses						
6. Source of Supply Expense.....	6,219	3,083	165,311	15,002	167,065	16,083
7. Pumping and Water Treatment Expense.....	302,713	331,204	3,620,951	3,525,751	4,051,869	3,846,452
8. Transmission and Distribution-Operation.....	59,056	49,054	581,000	1,081,525	623,620	1,182,755
9. Transmission and Distribution-Maintenance.....	68,680	85,947	948,970	1,180,841	1,024,540	1,297,635
10. Customer Accounts and Sales Expense.....	83,718	102,458	1,290,523	1,332,507	1,279,662	1,433,209
11. Administrative and General Expense.....	702,438	552,009	8,206,785	6,896,334	8,901,249	7,360,073
12. Depreciation and Amortization.....	289,675	395,681	3,482,617	3,444,004	3,950,618	3,770,607
13. Taxes Other Than Income Taxes.....	295,588	303,394	3,252,657	3,325,307	3,592,005	3,626,757
14. Income Taxes.....	63,700	44,770	1,875,645	1,682,928	2,549,344	1,797,199
15. Total Operating Expenses (Item 6-14).....	1,871,787	1,867,600	23,424,459	22,484,199	26,139,972	24,330,770
16. Net Operating Income (Item 5 less 15).....	304,566	229,790	4,997,722	4,268,319	6,071,452	4,609,956
17. Other Income.....	1,504	(9,598)	(54,791)	(5,946)	51,196	(1,916)
18. Miscellaneous Income Deductions.....	(456)	1,050	(7,637)	29,120	36,779	29,290
19. Interest Charges.....	234,972	175,071	2,495,913	2,141,959	2,708,624	2,368,374
20. Net Income.....	71,554	44,071	2,454,655	2,091,294	3,377,245	2,210,376
Balance Sheet						
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	154,769,448	149,903,412	152,844,236	145,527,667		
22. Construction Work in Progress.....	5,351,128	2,557,421	4,116,547	3,884,684		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	48,564,646	45,027,777	47,179,547	43,500,623		
26. Materials and Supplies.....	397,389	368,261	387,460	366,860		
27. Unamortized Investment Credit.....	1,351,735	1,504,471	1,386,737	1,469,469		
28. Deferred Income Tax.....	13,675,932	11,812,051	13,506,491	11,808,112		
29. Contributions in Aid of Construction.....	6,122,358	5,902,646	6,040,023	5,552,038		
30. Customer Advances for Construction.....	3,382,735	2,731,498	3,203,415	2,699,174		
31. Preferred Stock.....	1,399,600	1,435,000	1,416,256	1,449,990		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,786,083	4,782,678		
34. Retained Earnings.....	19,535,053	18,474,952	18,784,925	17,757,190		
35. Long Term Debt.....(1).....	43,292,102	24,374,297	38,581,823	28,908,227		

(1) Includes Capital Lease

FOR THE MONTH ENDED NOVEMBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$151,373,420	\$151,253,778
3	Plant Under Construction	4,301,157	4,116,547
4	Property Held For Future Use	0	0
5	Materials and Supplies	391,980	387,460
6	Other Additions:		
7	Leased Utility Plant	1,590,455	1,590,458
8	Unamortized Painting - net	9,290	9,456
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	159,234,220	158,925,617
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	47,338,881	47,179,547
16	Accumulated Deferred Income Taxes	13,552,069	13,506,491
17	Unamortized Investment Credit - Pre 1971	48,571	48,700
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,048,238	6,040,023
21	Customer Advances for Construction	3,243,294	3,203,415
22	All Other A/	(418,422)	(385,992)
23			
24			
25			
26	Total Deductions	69,812,631	69,592,184
27			
28	Rate Base	\$89,421,589	\$89,333,433
29			
30	Net Operating Income	\$304,566	\$6,071,452
31	Adjustments to NOI		
32	Allowance for funds used during construction	14,141	99,236
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,146	121,155
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$328,853	\$6,291,843
40			
41			
42	Rate of return B/	4.41%	7.04%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	34,298	53,825
Unpaid for materials and supplies	51,159	50,084
Taxes on CIAC-DEF. FIT & SIT	(503,879)	(489,901)
	(5418,422)	(5385,992)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

January 24, 2005

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2004 Estimate
the effect on annual net operating income of very significant known changes occurring
within the period covered by the report, which are not fully reflected in the revenue and
expense amounts shown in the report.

Employee wage increases	(\$83,774)
(including associated insurance & taxes)	

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,607	5,500	24	176	67,307
37. 3/4"	110	111	3	11	235
38. 1"	253	1,322	29	137	1,741
39. 1 1/2"	20	309	6	65	400
40. 2"	18	1,011	90	281	1,400
41. 3"		45		4	49
42. 4"&Over		30	30	35	95
43. Totals	62,008	8,328	182	709	71,227

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Jan. 31, 20 05

(Signed)

Title and Address:

Michael A. Mille

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: October 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	987,197	1,018,232	10,362,981	9,715,559	12,756,159	11,553,286
2. Commercial Sales.....	885,821	800,017	7,860,483	7,429,019	9,659,122	8,774,775
3. Industrial Sales.....	262,569	291,248	2,519,479	2,670,598	3,137,990	3,126,339
4. Other Sales.....	458,179	594,231	5,502,885	4,839,952	6,579,191	5,687,057
5. Total Operating Revenues (Item 1-4).....	2,593,766	2,703,728	26,245,828	24,655,128	32,132,462	29,141,457
Operating Expenses						
6. Source of Supply Expense.....	12,955	2,608	159,093	11,919	163,929	14,646
7. Pumping and Water Treatment Expense.....	335,333	357,386	3,318,238	3,194,547	4,080,360	3,829,067
8. Transmission and Distribution-Operation.....	48,188	78,969	521,944	1,032,472	613,618	1,229,516
9. Transmission and Distribution-Maintenance.....	83,211	100,496	880,291	1,094,894	1,041,807	1,336,325
10. Customer Accounts and Sales Expense.....	92,702	132,100	1,206,805	1,230,049	1,298,402	1,449,198
11. Administrative and General Expense.....	650,876	672,805	7,504,346	6,344,325	8,750,820	7,333,671
12. Depreciation and Amortization.....	277,092	312,303	3,192,942	3,048,323	4,056,623	3,699,222
13. Taxes Other Than Income Taxes.....	295,420	309,026	2,957,069	3,021,913	3,599,812	3,623,619
14. Income Taxes.....	242,524	251,249	1,811,945	1,638,158	2,530,414	1,871,690
15. Total Operating Expenses (Item 6-14).....	2,038,300	2,216,942	21,552,673	20,616,600	26,135,785	24,386,954
16. Net Operating Income (Item 5 less 15).....	555,466	486,786	4,693,155	4,038,528	5,996,677	4,754,503
17. Other Income.....	2,109	5,424	(56,295)	3,652	40,094	9,271
18. Miscellaneous Income Deductions.....	2,997	3,986	(7,181)	28,070	38,285	37,240
19. Interest Charges.....	238,926	176,635	2,260,941	1,966,888	2,648,723	2,416,428
20. Net Income.....	315,652	311,589	2,383,100	2,047,222	3,349,763	2,310,106
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	154,097,435	145,794,383	152,438,733	144,931,048		
22. Construction Work in Progress.....	5,192,826	5,886,879	3,883,738	4,018,054		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	48,413,725	44,648,469	46,884,808	43,242,538		
26. Materials and Supplies.....	389,651	356,155	385,033	364,402		
27. Unamortized Investment Credit.....	1,358,099	1,434,467	1,399,465	1,469,469		
28. Deferred Income Tax.....	14,013,739	12,391,450	13,351,168	11,773,478		
29. Contributions in Aid of Construction.....	6,117,558	5,845,121	6,021,713	5,490,512		
30. Customer Advances for Construction.....	3,373,388	2,715,123	3,149,145	2,692,149		
31. Preferred Stock.....	1,399,600	1,435,000	1,419,206	1,453,448		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,785,636	4,782,558		
34. Retained Earnings.....	19,455,185	18,416,651	18,597,582	17,723,763		
35. Long Term Debt.....(1).....	43,299,253	24,380,803	37,005,339	29,664,302		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED OCTOBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$151,192,867	\$150,848,275
3	Plant Under Construction	4,196,159	3,883,738
4	Property Held For Future Use	0	0
5	Materials and Supplies	391,439	385,033
6	Other Additions:		
7	Leased Utility Plant	1,590,450	1,590,458
8	Unamortized Painting - net	9,456	9,788
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	158,948,289	158,285,210
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	47,216,305	46,884,808
16	Accumulated Deferred Income Taxes	13,539,683	13,351,168
17	Unamortized Investment Credit - Pre 1971	48,700	48,958
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,040,826	6,021,713
21	Customer Advances for Construction	3,229,350	3,149,145
22	All Other A/	(423,848)	(374,517)
23			
24			
25			
26	Total Deductions	69,651,016	69,081,275
27			
28	Rate Base	\$89,297,273	\$89,203,935
29			
30	Net Operating Income	\$555,466	\$5,996,677
31	Adjustments to NOI		
32	Allowance for funds used during construction	15,335	105,290
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	10,132	121,096
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$580,933	\$6,223,063
40			
41			
42	Rate of return B/	7.81%	6.98%
A/ All Other			
	Acquisition adjustment	\$0	\$0
	Accounts payable applicable to CWIP	28,565	53,825
	Unpaid for materials and supplies	54,471	50,084
	Taxes on CIAC-DEF. FIT & SIT	(506,884)	(478,426)
		(\$423,848)	(\$374,517)
B/ Rate of return - Monthly (L25 / L18) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$525,000	
	Incidental collection	(1,981,081)	
	Average cash	366,929	
	Other components	2,657,070	
	Working cash	\$1,567,918	

November 16, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – October 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$22,017)

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,872	5,513	24	176	67,585
37. 3/4"	113	111	3	11	238
38. 1"	259	1,332	29	138	1,758
39. 1 1/2"	20	308	6	65	399
40. 2"	18	1,012	91	281	1,402
41. 3"		46		4	50
42. 4"&Over		30	30	35	95
43. Totals	62,282	8,352	183	710	71,527

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12/17, 20 04

(Signed)

Title and Address:

Michael A. Mullen

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: September 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,079,209	1,217,798	9,375,784	8,697,327	12,787,194	11,558,479
2. Commercial Sales.....	717,799	936,184	6,974,662	6,629,002	9,573,318	8,771,797
3. Industrial Sales.....	305,011	301,536	2,256,910	2,379,350	3,166,669	3,115,288
4. Other Sales.....	650,324	703,412	5,044,706	4,245,721	6,715,243	5,594,584
5. Total Operating Revenues (Item 1-4).....	2,752,343	3,158,930	23,652,062	21,951,400	32,242,424	29,040,148
Operating Expenses						
6. Source of Supply Expense.....	1,678	3,213	146,138	9,310	153,583	15,536
7. Pumping and Water Treatment Expense.....	311,427	401,252	2,982,905	2,837,161	4,102,413	3,826,062
8. Transmission and Distribution-Operation.....	51,081	115,877	473,756	953,502	644,400	1,274,361
9. Transmission and Distribution-Maintenance.....	81,760	123,182	797,079	994,398	1,059,091	1,350,403
10. Customer Accounts and Sales Expense.....	156,127	115,045	1,114,104	1,097,949	1,337,801	1,431,213
11. Administrative and General Expense.....	633,382	747,138	6,853,471	5,671,520	8,772,749	7,265,834
12. Depreciation and Amortization.....	277,110	312,089	2,915,850	2,736,020	4,091,834	3,688,479
13. Taxes Other Than Income Taxes.....	296,971	308,908	2,661,649	2,712,887	3,613,417	3,614,568
14. Income Taxes.....	294,472	365,912	1,569,421	1,386,909	2,539,139	1,822,124
15. Total Operating Expenses (Item 6-14).....	2,104,008	2,492,616	19,514,373	18,399,656	26,314,427	24,288,580
16. Net Operating Income (Item 5 less 15).....	648,335	666,314	4,137,689	3,551,744	5,927,997	4,751,568
17. Other Income.....	(1,912)	5,257	(58,404)	(1,772)	43,409	2,823
18. Miscellaneous Income Deductions.....	6,168	8,374	(10,178)	24,084	39,274	43,153
19. Interest Charges.....	245,604	171,813	2,022,015	1,790,253	2,586,432	2,471,332
20. Net Income.....	394,651	491,384	2,067,448	1,735,635	3,345,700	2,239,906
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	153,895,512	145,626,931	151,746,812	144,659,809		
22. Construction Work in Progress.....	4,556,116	5,521,954	3,941,576	3,871,319		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	48,140,828	44,398,424	46,571,036	42,991,656		
26. Materials and Supplies.....	406,561	350,905	382,241	366,480		
27. Unamortized Investment Credit.....	1,364,463	1,440,831	1,405,829	1,475,833		
28. Deferred Income Tax.....	13,988,302	10,885,677	13,215,977	10,610,677		
29. Contributions in Aid of Construction.....	6,068,443	5,582,201	5,999,010	5,434,062		
30. Customer Advances for Construction.....	3,413,080	2,765,380	3,094,290	2,686,865		
31. Preferred Stock.....	1,399,600	1,435,000	1,422,156	1,456,907		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,785,188	4,782,438		
34. Retained Earnings.....	19,130,023	18,069,212	18,511,038	17,681,648		
35. Long Term Debt.....(1).....	43,306,347	24,387,257	35,422,006	30,420,303		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED SEPTEMBER 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$151,046,859	\$150,156,354
3	Plant Under Construction	4,085,419	3,941,576
4	Property Held For Future Use	0	0
5	Materials and Supplies	391,638	382,241
6	Other Additions:		
7	Leased Utility Plant	1,590,444	1,590,458
8	Unamortized Painting - net	9,622	10,120
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	158,691,900	157,648,667
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	47,083,258	46,571,037
16	Accumulated Deferred Income Taxes	13,487,010	13,215,977
17	Unamortized Investment Credit - Pre 1971	48,829	49,216
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,032,301	5,999,010
21	Customer Advances for Construction	3,213,345	3,094,290
22	All Other A/	(425,026)	(363,044)
23			
24			
25			
26	Total Deductions	69,439,717	68,566,486
27			
28	Rate Base	\$89,252,183	\$89,082,181
29			
30	Net Operating Income	\$648,335	\$5,927,997
31	Adjustments to NOI		
32	Allowance for funds used during construction	12,673	131,621
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	10,126	121,158
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$671,134	\$6,180,776
40			
41			
42	Rate of return B/	9.02%	6.94%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	30,850	53,825
Unpaid for materials and supplies	54,680	50,084
Taxes on CIAC-DEF. FIT & SIT	(510,556)	(466,953)
	(\$425,026)	(\$363,044)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,728	5,524	24	178	67,454
37. 3/4"	113	111	3	11	238
38. 1"	260	1,329	29	139	1,757
39. 1 1/2"	20	306	6	65	397
40. 2"	18	1,011	91	280	1,400
41. 3"		43		5	48
42. 4" & Over		30	30	35	95
43. Totals	62,139	8,354	183	713	71,389

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12-1, 20 04

(Signed)

Title and Address:

M. Hull
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: August 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,053,159	965,293	8,296,575	7,479,529	12,925,783	11,463,648
2. Commercial Sales.....	842,645	748,735	6,256,863	5,692,818	9,791,703	8,640,764
3. Industrial Sales.....	225,987	250,964	1,951,899	2,077,814	3,163,194	3,107,759
4. Other Sales.....	516,812	441,457	4,394,382	3,542,309	6,768,331	5,398,371
5. Total Operating Revenues (Item 1-4).....	2,638,603	2,406,449	20,899,719	18,792,470	32,649,011	28,610,542
Operating Expenses						
6. Source of Supply Expense.....	29,404	427	144,460	6,097	155,118	14,884
7. Pumping and Water Treatment Expense.....	404,636	346,086	2,671,477	2,435,909	4,192,238	3,780,022
8. Transmission and Distribution-Operation.....	46,856	81,638	422,676	837,625	709,196	1,251,655
9. Transmission and Distribution-Maintenance.....	72,402	104,104	715,319	871,216	1,100,513	1,343,505
10. Customer Accounts and Sales Expense.....	83,640	104,087	957,977	982,904	1,296,719	1,468,289
11. Administrative and General Expense.....	710,831	630,934	6,220,089	4,924,382	8,886,506	7,021,672
12. Depreciation and Amortization.....	276,721	312,196	2,638,740	2,423,931	4,126,813	3,687,429
13. Taxes Other Than Income Taxes.....	300,223	313,604	2,364,678	2,403,979	3,625,354	3,606,309
14. Income Taxes.....	216,250	143,730	1,274,949	1,020,997	2,610,579	1,733,020
15. Total Operating Expenses (Item 6-14).....	2,140,963	2,036,806	17,410,365	15,907,040	26,703,036	23,906,785
16. Net Operating Income (Item 5 less 15).....	497,640	369,643	3,489,354	2,885,430	5,945,975	4,703,757
17. Other Income.....	(712)	(4,166)	(56,492)	(7,029)	50,578	(1,394)
18. Miscellaneous Income Deductions.....	(6,344)	388	(16,346)	15,710	41,480	46,364
19. Interest Charges.....	225,010	187,613	1,776,411	1,618,440	2,512,641	2,520,723
20. Net Income.....	278,262	177,476	1,672,797	1,244,251	3,442,432	2,135,276
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	153,444,634	145,528,185	151,057,764	144,396,405		
22. Construction Work in Progress.....	6,421,469	4,745,578	4,022,062	3,731,710		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	47,857,053	44,127,586	46,259,169	42,736,010		
26. Materials and Supplies.....	444,622	406,747	377,604	368,138		
27. Unamortized Investment Credit.....	1,370,827	1,447,195	1,412,193	1,482,197		
28. Deferred Income Tax.....	14,014,018	10,835,677	13,068,957	10,560,677		
29. Contributions in Aid of Construction.....	6,076,186	5,556,774	5,958,490	5,398,780		
30. Customer Advances for Construction.....	3,338,974	2,769,659	3,040,315	2,676,097		
31. Preferred Stock.....	1,399,600	1,427,000	1,425,106	1,462,490		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,784,741	4,782,318		
34. Retained Earnings.....	19,364,443	18,058,752	18,422,637	17,646,853		
35. Long Term Debt.....(1).....	43,321,613	48,305,131	33,845,415	29,804,427		

(1) Includes Capital Lease

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,650	5,531	24	178	67,383
37. 3/4"	113	110	3	11	237
38. 1"	262	1,330	29	141	1,762
39. 1 1/2"	19	306	6	64	395
40. 2"	19	1,010	91	280	1,400
41. 3"		43		4	47
42. 4"&Over		30	30	35	95
43. Totals	62,063	8,360	183	713	71,319

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10/20, 20 04 (Signed) Michael A. Miller
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: July 2004

PSC-3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,281,757	1,018,296	7,243,416	6,514,236	12,837,917	11,741,919
2. Commercial Sales.....	886,019	717,106	5,414,218	4,944,083	9,697,793	8,756,511
3. Industrial Sales.....	221,934	239,806	1,725,912	1,826,850	3,188,171	3,164,384
4. Other Sales.....	571,140	441,420	3,877,570	3,100,852	6,692,976	5,498,501
5. Total Operating Revenues (Item 1-4).....	2,960,850	2,416,628	18,261,116	16,386,021	32,416,857	29,161,315
Operating Expenses						
6. Source of Supply Expense.....	22,929	125	115,056	5,670	126,141	16,775
7. Pumping and Water Treatment Expense.....	353,432	327,317	2,266,841	2,089,823	4,133,688	3,878,917
8. Transmission and Distribution-Operation.....	51,558	98,732	375,820	755,987	743,978	1,277,759
9. Transmission and Distribution-Maintenance.....	71,573	81,380	642,917	767,112	1,132,215	1,368,580
10. Customer Accounts and Sales Expense.....	166,940	163,544	874,337	878,817	1,317,166	1,468,053
11. Administrative and General Expense.....	754,008	522,769	5,509,258	4,293,448	8,806,609	6,918,518
12. Depreciation and Amortization.....	276,315	312,180	2,362,019	2,111,735	4,162,288	3,683,268
13. Taxes Other Than Income Taxes.....	300,701	309,137	2,064,455	2,090,375	3,638,735	3,613,791
14. Income Taxes.....	310,479	185,165	1,058,699	877,267	2,538,059	1,925,677
15. Total Operating Expenses (Item 6-14).....	2,307,935	2,000,349	15,269,402	13,870,234	26,598,879	24,151,338
16. Net Operating Income (Item 5 less 15).....	652,915	416,279	2,991,714	2,515,787	5,817,978	5,009,977
17. Other Income.....	(15,012)	(5,592)	(55,780)	(2,863)	47,124	6,452
18. Miscellaneous Income Deductions.....	(7,491)	(2,645)	(10,002)	15,322	48,212	41,341
19. Interest Charges.....	236,547	177,687	1,551,401	1,430,827	2,475,244	2,565,020
20. Net Income.....	408,847	235,645	1,394,535	1,066,775	3,341,646	2,410,068
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	153,315,366	145,479,624	150,398,059	144,124,938		
22. Construction Work in Progress.....	5,530,606	4,076,683	3,882,405	3,616,718		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort. (1).....	47,582,434	43,870,165	45,948,381	42,478,685		
26. Materials and Supplies.....	423,157	381,312	374,447	364,407		
27. Unamortized Investment Credit.....	1,377,191	1,453,559	1,418,557	1,488,561		
28. Deferred Income Tax.....	14,011,550	10,785,677	12,905,146	10,510,677		
29. Contributions in Aid of Construction.....	6,073,460	5,505,699	5,915,206	5,342,818		
30. Customer Advances for Construction.....	3,353,923	2,811,478	2,992,872	2,663,335		
31. Preferred Stock.....	1,399,600	1,427,000	1,427,389	1,468,740		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,784,293	4,782,198		
34. Retained Earnings.....	19,079,510	17,861,114	18,313,829	17,636,478		
35. Long Term Debt.....(1).....	43,321,613	47,614,659	32,267,552	28,561,805		

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY
SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

Page 2

FOR THE MONTH ENDED JULY 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$150,751,798	\$148,807,601
3	Plant Under Construction	3,684,455	3,882,405
4	Property Held For Future Use	0	0
5	Materials and Supplies	381,937	374,447
6	Other Additions:		
7	Leased Utility Plant	1,590,429	1,590,458
8	Unamortized Painting - net	9,954	10,783
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	157,986,491	156,233,612
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,821,634	45,948,381
16	Accumulated Deferred Income Taxes	13,340,110	12,905,146
17	Unamortized Investment Credit - Pre 1971	49,087	49,732
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,020,868	5,915,206
21	Customer Advances for Construction	3,166,865	2,992,872
22	All Other A/	(459,790)	(408,409)
23			
24			
25			
26	Total Deductions	68,938,774	67,402,928
27			
28	Rate Base	\$89,047,717	\$88,830,684
29			
30	Net Operating Income	\$652,915	\$5,817,978
31	Adjustments to NOI		
32	Allowance for funds used during construction	10,411	159,503
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,103	120,982
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$673,429	\$6,098,463
40			
41			
42	Rate of return B/	9.08%	6.87%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF. FIT & SIT	(531,790)	(512,318)
	(\$459,790)	(\$408,409)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

September 17, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – July 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$56,218)

Revenues due to 8-7-03 rate increase	\$ 27,639

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,558	5,565	24	179	67,326
37. 3/4"	113	112	3	11	239
38. 1"	261	1,331	29	140	1,761
39. 1 1/2"	18	309	6	63	396
40. 2"	19	998	91	278	1,386
41. 3"		45		4	49
42. 4"&Over		29	30	34	93
43. Totals	61,969	8,389	183	709	71,250

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Sept. 23, 2004

(Signed) Michael A. Miller
Title and Address: Manager - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: May 2004

PSC-3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,087,132	959,736	4,769,277	4,559,797	12,318,217	12,053,005
2. Commercial Sales.....	836,044	795,664	3,668,236	3,518,825	9,377,069	9,016,898
3. Industrial Sales.....	227,203	235,260	1,147,607	1,265,997	3,170,719	3,149,970
4. Other Sales.....	516,305	458,009	2,646,024	2,164,836	6,397,446	5,548,071
5. Total Operating Revenues (Item 1-4).....	2,666,684	2,448,669	12,231,144	11,509,455	31,263,451	29,767,944
Operating Expenses						
6. Source of Supply Expense.....	54,348	55	85,443	5,469	96,729	20,348
7. Pumping and Water Treatment Expense.....	274,576	289,889	1,527,553	1,376,510	4,107,713	3,847,966
8. Transmission and Distribution-Operation.....	31,933	104,035	265,428	502,698	886,875	1,228,916
9. Transmission and Distribution-Maintenance.....	54,943	97,255	472,229	544,125	1,184,514	1,372,974
10. Customer Accounts and Sales Expense.....	101,223	103,364	554,393	572,026	1,304,013	1,396,323
11. Administrative and General Expense.....	895,786	607,095	3,959,097	3,227,882	8,322,014	6,807,462
12. Depreciation and Amortization.....	402,015	311,675	2,004,874	1,487,412	4,429,466	3,677,782
13. Taxes Other Than Income Taxes.....	288,634	299,945	1,451,322	1,468,058	3,647,919	3,607,155
14. Income Taxes.....	123,034	190,713	351,944	569,173	2,139,398	2,241,982
15. Total Operating Expenses (Item 6-14).....	2,226,492	2,004,026	10,672,283	9,753,353	26,118,641	24,200,908
16. Net Operating Income (Item 5 less 15).....	440,192	444,643	1,558,861	1,756,102	5,144,810	5,567,036
17. Other Income.....	(11,396)	22,685	(22,543)	6,664	70,834	22,323
18. Miscellaneous Income Deductions.....	11,798	135	4,531	9,405	68,662	51,129
19. Interest Charges.....	245,461	222,824	1,075,243	1,070,087	2,359,826	2,675,310
20. Net Income.....	171,537	244,369	456,544	683,274	2,787,156	2,862,920
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	152,749,271	145,163,892	149,101,618	143,559,716		
22. Construction Work in Progress.....	3,859,370	3,721,988	3,670,234	3,460,703		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	47,312,616	43,441,914	45,322,658	41,965,015		
26. Materials and Supplies.....	335,291	368,767	367,733	362,198		
27. Unamortized Investment Credit.....	1,389,919	1,466,287	1,431,285	1,501,289		
28. Deferred Income Tax.....	13,345,690	10,685,677	12,563,443	10,410,677		
29. Contributions in Aid of Construction.....	6,009,673	5,494,897	5,819,598	5,227,567		
30. Customer Advances for Construction.....	3,297,107	2,717,844	2,890,573	2,643,192		
31. Preferred Stock.....	1,422,470	1,453,940	1,431,956	1,481,240		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,783,398	4,781,958	4,783,398	4,781,958		
34. Retained Earnings.....	18,233,081	17,643,885	18,123,862	17,556,827		
35. Long Term Debt.....(1).....	43,334,170	33,412,572	29,113,952	28,133,014		

(1) Includes Capital Lease

FOR THE MONTH ENDED MAY 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$150,432,509	\$147,511,160
3	Plant Under Construction	3,044,033	3,670,234
4	Property Held For Future Use	0	0
5	Materials and Supplies	367,926	367,733
6	Other Additions:		
7	Leased Utility Plant	1,590,400	1,590,458
8	Unamortized Painting - net	10,286	11,447
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	157,013,072	154,718,950
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	46,560,637	45,322,658
16	Accumulated Deferred Income Taxes	13,129,479	12,563,443
17	Unamortized Investment Credit - Pre 1971	49,345	50,248
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,999,020	5,819,598
21	Customer Advances for Construction	3,082,602	2,890,573
22	All Other A/	(457,589)	(391,727)
23			
24			
25			
26	Total Deductions	68,363,494	66,254,793
27			
28	Rate Base	\$88,649,578	\$88,464,157
29			
30	Net Operating Income	\$440,192	\$5,144,810
31	Adjustments to NOI		
32	Allowance for funds used during construction	6,578	192,544
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,058	120,932
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$456,828	\$5,458,286
40			
41			
42	Rate of return B/	6.18%	6.17%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF. FIT & SIT	(526,640)	(495,636)
	(\$457,589)	(\$391,727)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

July 29, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$79,019)

Revenues due to 8-7-03 rate increase	\$ 307,954

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,156	5,541	24	179	66,900
37. 3/4"	112	111	3	11	237
38. 1"	252	1,319	29	139	1,739
39. 1 1/2"	17	310	6	63	396
40. 2"	18	999	92	278	1,387
41. 3"		41	1	4	46
42. 4"&Over		29	30	34	93
43. Totals	61,555	8,350	185	708	70,798

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: _____, 20 ____

(Signed) _____

Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

PSC-3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,192,382	936,143	5,961,659	5,495,940	12,574,456	11,944,438
2. Commercial Sales.....	859,963	708,152	4,528,199	4,226,977	9,528,880	8,907,587
3. Industrial Sales.....	356,371	321,047	1,503,978	1,587,044	3,206,043	3,156,625
4. Other Sales.....	660,406	494,595	3,306,430	2,659,431	6,563,257	5,574,293
5. Total Operating Revenues (Item 1-4).....	3,069,122	2,459,937	15,300,266	13,969,392	31,872,636	29,582,943
Operating Expenses						
6. Source of Supply Expense.....	6,684	76	92,127	5,545	103,337	20,005
7. Pumping and Water Treatment Expense.....	385,856	385,996	1,913,409	1,762,506	4,107,573	3,909,596
8. Transmission and Distribution-Operation.....	58,834	154,557	324,262	657,255	791,152	1,286,981
9. Transmission and Distribution-Maintenance.....	99,115	141,607	571,344	685,732	1,142,022	1,409,418
10. Customer Accounts and Sales Expense.....	153,004	143,247	707,397	715,273	1,313,770	1,453,800
11. Administrative and General Expense.....	796,153	542,797	4,755,250	3,770,679	8,575,370	6,912,371
12. Depreciation and Amortization.....	80,830	312,143	2,085,704	1,799,555	4,198,153	3,680,359
13. Taxes Other Than Income Taxes.....	312,432	313,180	1,763,754	1,781,238	3,647,171	3,624,875
14. Income Taxes.....	396,276	122,929	748,220	692,102	2,412,745	2,041,623
15. Total Operating Expenses (Item 6-14).....	2,289,184	2,116,532	12,961,467	11,869,885	26,291,293	24,339,028
16. Net Operating Income (Item 5 less 15).....	779,938	343,405	2,338,799	2,099,507	5,581,343	5,243,915
17. Other Income.....	(18,225)	(3,935)	(40,768)	2,729	56,544	17,628
18. Miscellaneous Income Deductions.....	(7,042)	8,562	(2,511)	17,967	53,058	59,461
19. Interest Charges.....	239,611	183,053	1,314,854	1,253,140	2,416,384	2,624,683
20. Net Income.....	529,144	147,855	985,688	831,129	3,168,445	2,577,399
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year	Last Year	This Year	Last Year		
	(h)	(i)	(j)	(k)		
21. Utility Plant In Service.....(1).....	152,965,672	145,244,123	149,745,081	143,846,244		
22. Construction Work in Progress.....	5,040,412	3,948,283	3,761,244	3,538,324		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	47,365,821	43,569,419	45,639,025	42,221,844		
26. Materials and Supplies.....	410,771	372,046	370,960	362,981		
27. Unamortized Investment Credit.....	1,383,555	1,459,923	1,424,921	1,494,925		
28. Deferred Income Tax.....	13,721,826	10,735,677	12,727,227	10,460,677		
29. Contributions in Aid of Construction.....	6,077,516	5,497,981	5,867,893	5,285,539		
30. Customer Advances for Construction.....	3,401,124	2,715,978	2,947,668	2,649,148		
31. Preferred Stock.....	1,399,600	1,427,000	1,429,673	1,474,990		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,788,768	4,783,398	4,783,846	4,782,078		
34. Retained Earnings.....	18,666,151	17,604,939	18,212,296	17,603,471		
35. Long Term Debt.....(1).....	43,327,917	24,406,318	30,690,752	27,377,305		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JUNE 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$150,589,620	\$148,154,623
3	Plant Under Construction	3,376,763	3,761,244
4	Property Held For Future Use	0	0
5	Materials and Supplies	375,067	370,960
6	Other Additions:		
7	Leased Utility Plant	1,590,417	1,590,458
8	Unamortized Painting - net	10,120	11,115
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	157,509,905	155,456,318
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	46,694,834	45,639,024
16	Accumulated Deferred Income Taxes	13,228,203	12,727,227
17	Unamortized Investment Credit - Pre 1971	49,216	49,990
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	6,012,103	5,867,893
21	Customer Advances for Construction	3,135,689	2,947,668
22	All Other A/	(455,573)	(395,549)
23			
24			
25			
26	Total Deductions	68,664,472	66,836,253
27			
28	Rate Base	\$88,845,433	\$88,620,065
29			
30	Net Operating Income	\$779,938	\$5,581,343
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,420	175,706
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,080	110,915
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$799,438	\$5,867,964
40			
41			
42	Rate of return B/	10.80%	6.62%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	14,130	53,825
Unpaid for materials and supplies	50,906	50,084
Taxes on CIAC-DEF. FIT & SIT	(520,609)	(499,458)
	(\$455,573)	(\$395,549)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

August 16, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – June 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$67,619)

Revenues due to 8-7-03 rate increase	\$ 170,094

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 06/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,438	5,556	24	180	67,198
37. 3/4"	113	111	3	11	238
38. 1"	257	1,327	29	140	1,753
39. 1 1/2"	17	313	6	63	399
40. 2"	19	997	92	278	1,386
41. 3"	1	43		4	48
42. 4"&Over		29	30	34	93
43. Totals	61,845	8,376	184	710	71,115

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 8-24-04, 20__

(Signed)

Michael A. Hill

Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: April 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,028,762	965,613	3,682,145	3,600,061	12,190,821	12,139,229
2. Commercial Sales.....	720,433	738,830	2,832,192	2,723,160	9,336,689	8,982,197
3. Industrial Sales.....	239,596	288,419	920,404	1,030,737	3,178,776	3,202,566
4. Other Sales.....	546,232	476,984	2,129,719	1,706,827	6,339,150	5,584,268
5. Total Operating Revenues (Item 1-4).....	2,535,023	2,469,846	9,564,460	9,060,785	31,045,436	29,908,260
Operating Expenses						
6. Source of Supply Expense.....	14,947	2,012	31,095	5,414	42,436	22,072
7. Pumping and Water Treatment Expense.....	299,096	227,546	1,252,977	1,086,621	4,123,026	3,895,175
8. Transmission and Distribution-Operation.....	49,169	92,734	233,495	398,663	958,977	1,238,241
9. Transmission and Distribution-Maintenance.....	72,669	93,715	417,286	446,870	1,226,826	1,402,131
10. Customer Accounts and Sales Expense.....	102,786	71,026	453,170	468,662	1,306,154	1,441,072
11. Administrative and General Expense.....	832,242	737,982	3,063,311	2,620,787	8,033,323	6,700,132
12. Depreciation and Amortization.....	401,278	312,033	1,602,859	1,175,737	4,339,126	3,675,868
13. Taxes Other Than Income Taxes.....	301,678	299,117	1,162,688	1,168,113	3,659,230	3,606,920
14. Income Taxes.....	106,917	171,582	228,910	378,460	2,207,077	2,252,620
15. Total Operating Expenses (Item 6-14).....	2,180,782	2,007,747	8,445,791	7,749,327	25,896,175	24,234,231
16. Net Operating Income (Item 5 less 15).....	354,241	462,099	1,118,669	1,311,458	5,149,261	5,674,029
17. Other Income.....	7,887	(21,244)	(11,147)	(16,021)	104,915	(2,374)
18. Miscellaneous Income Deductions.....	(5,164)	837	(7,267)	9,270	56,999	49,698
19. Interest Charges.....	224,281	222,067	829,782	847,263	2,337,189	2,739,935
20. Net Income.....	143,011	217,951	285,007	438,904	2,859,988	2,882,022
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	152,166,186	144,992,784	148,469,504	143,254,225		
22. Construction Work in Progress.....	3,433,865	3,545,164	3,658,785	3,393,010		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	46,921,258	43,161,062	45,000,099	41,701,518		
26. Materials and Supplies.....	382,811	358,334	370,523	362,166		
27. Unamortized Investment Credit.....	1,396,283	1,472,651	1,437,649	1,507,653		
28. Deferred Income Tax.....	13,479,041	10,635,677	12,424,944	10,360,677		
29. Contributions in Aid of Construction.....	6,004,930	5,545,652	5,776,700	5,169,695		
30. Customer Advances for Construction.....	3,306,393	2,612,356	2,842,301	2,635,696		
31. Preferred Stock.....	1,435,000	1,453,940	1,434,578	1,487,370		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,783,398	4,781,958	4,783,278	4,781,958		
34. Retained Earnings.....	18,060,930	17,379,799	18,074,762	17,492,303		
35. Long Term Debt.....(1).....	43,347,757	24,340,991	28,287,152	28,971,985		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED APRIL 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$150,250,944	\$146,879,045
3	Plant Under Construction	2,840,199	3,658,785
4	Property Held For Future Use	0	0
5	Materials and Supplies	376,084	370,523
6	Other Additions:		
7	Leased Utility Plant	1,590,375	1,590,458
8	Unamortized Painting - net	10,452	11,779
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	156,635,972	154,078,508
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	46,372,642	45,000,099
16	Accumulated Deferred Income Taxes	13,075,426	12,424,944
17	Unamortized Investment Credit - Pre 1971	49,474	50,506
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,996,357	5,776,700
21	Customer Advances for Construction	3,028,975	2,842,301
22	All Other A/	(455,487)	(385,351)
23			
24			
25			
26	Total Deductions	68,067,387	65,709,199
27			
28	Rate Base	\$88,568,585	\$88,369,309
29			
30	Net Operating Income	\$354,241	\$5,149,261
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,671	211,713
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	10,049	120,874
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$369,961	\$5,481,848
40			
41			
42	Rate of return B/	5.01%	6.20%
A/ All Other			
	Acquisition adjustment	\$0	\$0
	Accounts payable applicable to CWIP	17,637	53,825
	Unpaid for materials and supplies	54,908	50,084
	Taxes on CIAC-DEF: FIT & SIT	(528,032)	(489,260)
		(\$455,487)	(\$385,351)
B/ Rate of return - Monthly (L25 / L18) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$525,000	
	Incidental collection	(1,981,081)	
	Average cash	366,929	
	Other components	2,657,070	
	Working cash	\$1,567,918	

June 29, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – April 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$90,419)

Revenues due to 8-7-03 rate increase	\$ 450,409

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	61,037	5,535	25	178	66,775
37. 3/4"	111	111	3	11	236
38. 1"	252	1,307	29	139	1,727
39. 1 1/2"	19	306	6	62	393
40. 2"	17	991	92	276	1,376
41. 3"		40		4	44
42. 4"&Over		29	30	34	93
43. Totals	61,436	8,319	185	704	70,644

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date:

July 16, 20 *04*

(Signed)

Title and Address:

Larry L. Russell
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS WATER COMPANIES

Company Name: Tennessee-American Water Co.

Month of Report: March 2004

PSC--3.06

[illegible]

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$150,142,697	\$146,281,262
3	Plant Under Construction	2,642,310	3,668,060
4	Property Held For Future Use	0	0
5	Materials and Supplies	373,842	368,483
6	Other Additions:		
7	Leased Utility Plant	1,590,333	1,590,458
8	Unamortized Painting - net	10,617	12,110
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	156,327,717	153,488,291
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	46,189,770	44,686,750
16	Accumulated Deferred Income Taxes	12,940,888	12,273,716
17	Unamortized Investment Credit - Pre 1971	49,603	50,764
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,993,499	5,738,427
21	Customer Advances for Construction	2,936,503	2,784,464
22	All Other A/	(454,537)	(401,402)
23			
24			
25			
26	Total Deductions	67,655,726	65,132,719
27			
28	Rate Base	\$88,671,991	\$88,355,572
29			
30	Net Operating Income	\$414,414	\$5,257,119
31	Adjustments to NOI		
32	Allowance for funds used during construction	4,218	231,114
33	Adjustment to reflect effective federal		
34	income tax rate (debt assigned to parent)	10,061	120,824
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$428,693	\$5,609,057
40			
41			
42	Rate of return B/	5.80%	6.35%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(529,026)	(505,311)
	(\$454,537)	(\$401,402)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

May 28, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – March 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$48,978)

Revenues due to 8-7-03 rate increase	\$ 588,269

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	60,901	5,553	26	177	66,657
37. 3/4"	106	111	3	11	231
38. 1"	230	1,286	29	139	1,684
39. 1 1/2"	19	306	6	62	393
40. 2"	14	982	92	273	1,361
41. 3"		39		4	43
42. 4"&Over	1	28	30	34	93
43. Totals	61,271	8,305	186	700	70,462

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: June 15, 2004

(Signed)

Title and Address:

Ray A. Furry
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: February 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	797,543	1,134,396	1,578,205	1,720,235	11,966,707	12,106,882
2. Commercial Sales.....	687,677	834,058	1,291,131	1,283,914	9,234,874	8,954,629
3. Industrial Sales.....	256,047	257,414	436,881	431,984	3,294,006	3,160,273
4. Other Sales.....	476,715	435,984	992,894	776,953	6,132,199	5,551,162
5. Total Operating Revenues (Item 1-4).....	2,217,981	2,661,852	4,299,111	4,213,086	30,627,786	29,772,946
Operating Expenses						
6. Source of Supply Expense.....	2,941	1,177	6,379	2,188	20,946	19,688
7. Pumping and Water Treatment Expense.....	318,673	293,869	592,031	589,103	3,959,598	4,060,173
8. Transmission and Distribution-Operation.....	42,536	99,175	124,683	197,136	1,051,692	1,252,715
9. Transmission and Distribution-Maintenance.....	100,324	123,231	230,811	225,847	1,261,374	1,425,298
10. Customer Accounts and Sales Expense.....	108,000	109,295	236,832	257,103	1,301,375	1,485,024
11. Administrative and General Expense.....	870,513	634,569	1,437,256	1,033,078	7,994,977	6,077,803
12. Depreciation and Amortization.....	400,479	311,056	800,688	553,959	4,158,733	3,673,449
13. Taxes Other Than Income Taxes.....	304,210	302,859	543,545	566,794	3,641,406	3,583,723
14. Income Taxes.....	(41,686)	243,567	(23,128)	180,568	2,152,931	2,309,615
15. Total Operating Expenses (Item 6-14).....	2,105,991	2,118,798	3,949,097	3,605,776	25,543,032	23,887,488
16. Net Operating Income (Item 5 less 15).....	111,990	543,054	350,014	607,310	5,084,754	5,885,458
17. Other Income.....	(17,676)	(1,412)	(32,210)	1,088	66,743	12,212
18. Miscellaneous Income Deductions.....	(6,699)	285	(2,448)	683	70,405	58,253
19. Interest Charges.....	174,494	222,587	366,698	399,650	2,321,718	2,867,543
20. Net Income.....	(73,481)	318,770	(46,446)	208,065	2,759,374	2,971,874
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	151,698,443	144,650,655	147,284,243	142,686,731		
22. Construction Work in Progress.....	2,547,501	3,243,929	3,696,097	3,225,796		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	46,186,686	42,586,457	44,379,192	41,223,016		
26. Materials and Supplies.....	368,647	347,498	364,586	363,482		
27. Unamortized Investment Credit.....	1,409,011	1,485,379	1,450,377	1,520,381		
28. Deferred Income Tax.....	12,631,530	10,535,677	12,110,482	10,260,677		
29. Contributions in Aid of Construction.....	5,988,467	5,493,559	5,700,193	5,008,112		
30. Customer Advances for Construction.....	2,898,217	2,618,826	2,742,746	2,643,799		
31. Preferred Stock.....	1,435,000	1,476,500	1,439,615	1,497,750		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,783,398	4,781,958	4,783,038	4,781,958		
34. Retained Earnings.....	18,615,581	17,531,834	17,988,399	17,331,299		
35. Long Term Debt.....(1).....	24,354,471	24,354,471	26,632,755	32,162,388		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED February 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$150,041,203	\$145,693,784
3	Plant Under Construction	2,433,473	3,696,097
4	Property Held For Future Use	0	0
5	Materials and Supplies	364,239	364,586
6	Other Additions:		
7	Leased Utility Plant	1,590,250	1,590,458
8	Unamortized Painting - net	10,783	12,442
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	156,007,866	152,925,285
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	45,993,818	44,379,192
16	Accumulated Deferred Income Taxes	12,756,261	12,110,482
17	Unamortized Investment Credit - Pre 1971	49,732	51,022
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,989,516	5,700,193
21	Customer Advances for Construction	2,871,435	2,742,746
22	All Other A/	(467,968)	(394,657)
23			
24			
25			
26	Total Deductions	67,192,794	64,588,978
27			
28	Rate Base	\$88,815,072	\$88,336,307
29			
30	Net Operating Income	\$111,990	\$5,084,754
31	Adjustments to NOI		
32	Allowance for funds used during construction	3,097	251,272
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,077	120,761
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$125,164	\$5,456,787
40			
41			
42	Rate of return B/	1.69%	6.18%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	8,313	53,825
Unpaid for materials and supplies	54,500	50,084
Taxes on CIAC-DEF. FIT & SIT	(530,781)	(498,566)
	(\$467,968)	(\$394,657)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

April 29, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2004 Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$62,433)

Revenues due to 8-7-03 rate increase	\$ 730,724

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	60,766	5,550	27	180	66,523
37. 3/4"	105	111	3	12	231
38. 1"	221	1,267	28	140	1,656
39. 1 1/2"	19	302	6	61	388
40. 2"	14	981	92	273	1,360
41. 3"		37		4	41
42. 4"&Over		27	30	34	91
43. Totals	61,125	8,275	186	704	70,290

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: May 6, 2004 (Signed) Kay H. Ferguson

Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: January 2004

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	780,663	585,839	780,663	585,839	12,303,560	11,786,915
2. Commercial Sales.....	603,454	449,856	603,454	449,856	9,381,255	8,737,404
3. Industrial Sales.....	180,834	174,570	180,834	174,570	3,295,373	3,174,536
4. Other Sales.....	516,179	340,969	516,179	340,969	6,091,468	5,516,295
5. Total Operating Revenues (Item 1-4).....	2,081,129	1,551,235	2,081,130	1,551,234	31,071,656	29,215,150
Operating Expenses						
6. Source of Supply Expense.....	3,438	1,011	3,438	1,011	19,182	18,944
7. Pumping and Water Treatment Expense.....	273,358	295,234	273,358	295,234	3,934,794	4,063,489
8. Transmission and Distribution-Operation.....	82,146	97,961	82,146	97,961	1,108,331	1,291,375
9. Transmission and Distribution-Maintenance.....	130,487	102,616	130,487	102,616	1,284,281	1,400,330
10. Customer Accounts and Sales Expense.....	128,832	147,808	128,832	147,808	1,302,670	1,494,272
11. Administrative and General Expense.....	566,743	398,509	566,743	398,509	7,759,033	5,849,731
12. Depreciation and Amortization.....	400,209	242,903	400,209	242,903	4,069,311	3,671,643
13. Taxes Other Than Income Taxes.....	239,334	263,935	239,334	263,935	3,640,055	3,562,990
14. Income Taxes.....	18,558	(62,999)	18,558	(62,999)	2,438,184	2,144,024
15. Total Operating Expenses (Item 6-14).....	1,843,105	1,486,978	1,843,105	1,486,978	25,555,841	23,496,798
16. Net Operating Income (Item 5 less 15).....	238,024	64,257	238,025	64,256	5,515,815	5,718,352
17. Other Income.....	(14,534)	2,500	(14,534)	2,500	83,007	13,743
18. Miscellaneous Income Deductions.....	4,251	398	4,251	398	77,389	57,968
19. Interest Charges.....	192,204	177,063	192,204	177,063	2,369,811	2,929,432
20. Net Income.....	27,035	(110,704)	27,036	(110,705)	3,151,622	2,744,695
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	151,564,464	144,537,053	146,696,927	142,400,869		
22. Construction Work in Progress.....	2,319,445	3,044,636	3,754,133	3,124,991		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	45,800,950	42,267,803	44,079,173	40,982,558		
26. Materials and Supplies.....	359,831	388,248	362,824	368,858		
27. Unamortized Investment Credit.....	1,415,375	1,491,743	1,456,741	1,526,745		
28. Deferred Income Tax.....	12,880,991	10,485,677	12,037,424	10,210,677		
29. Contributions in Aid of Construction.....	5,990,564	5,493,188	5,658,951	4,924,911		
30. Customer Advances for Construction.....	2,844,652	2,701,798	2,719,464	2,642,712		
31. Preferred Stock.....	1,435,000	1,476,500	1,443,073	1,502,000		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	4,783,398	4,781,958	4,782,918	4,781,958		
34. Retained Earnings.....	18,668,998	17,195,214	17,896,175	17,264,635		
35. Long Term Debt.....(1).....	24,361,132	24,361,132	27,389,057	33,757,290		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED January 2004

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$149,956,090	\$145,106,469
3	Plant Under Construction	2,202,642	3,754,133
4	Property Held For Future Use	0	0
5	Materials and Supplies	346,767	362,824
6	Other Additions:		
7	Leased Utility Plant	1,590,250	1,590,458
8	Unamortized Painting - net	11,115	12,774
9	Working Capital C/	1,567,918	1,567,918
10			
11	Total Additions	155,676,802	152,394,576
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	45,613,910	44,079,173
16	Accumulated Deferred Income Taxes	12,943,064	12,037,424
17	Unamortized Investment Credit - Pre 1971	49,990	51,280
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	5,970,109	5,658,951
21	Customer Advances for Construction	2,804,701	2,719,464
22	All Other A/	(402,628)	(387,522)
23			
24			
25			
26	Total Deductions	66,979,146	64,158,770
27			
28	Rate Base	\$88,697,656	\$88,235,806
29			
30	Net Operating Income	\$238,024	\$5,515,815
31	Adjustments to NOI		
32	Allowance for funds used during construction	1,861	272,144
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	10,063	120,654
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$249,948	\$5,908,613
40			
41			
42	Rate of return B/	3.38%	6.70%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	134,313	53,825
Unpaid for materials and supplies	52,228	50,084
Taxes on CIAC-DEF. FIT & SIT	(589,169)	(491,431)
	(\$402,628)	(\$387,522)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$525,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,657,070
Working cash	\$1,567,918

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/04

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	60,689	5,549	27	180	66,445
37. 3/4"	105	111	3	12	231
38. 1"	222	1,265	28	140	1,655
39. 1 1/2"	19	301	6	61	387
40. 2"	14	978	92	273	1,357
41. 3"		36		4	40
42. 4"&Over		27	30	34	91
43. Totals	61,049	8,267	186	704	70,206

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: _____, 20 ____

(Signed) _____

Title and Address: _____

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

March 26, 2004

CONTINUING SURVEILLANCE CONSIDERATIONS – January 2004 Estimate

the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

Employee wage increases (including associated insurance & taxes)	(\$75,888)

Revenues due to 8-7-03 rate increase	\$ 859,393

Higher water costs, coupled with rising prices of other commodities, makes it harder for manufacturers to do business as well, said Ray Childers, president of the Chattanooga Manufacturers Association.

"Manufacturers are resourceful and will look for ways to deal with this huge increase," Mr. Childers said. "Such increases cannot continue."

Mr. Smith said he is tackling water expenses with a new car wash which opens in July in East Ridge.

Shur Shine Express Wash will be a drive-through car wash that uses a \$45,000 water-reclamation system to purify and reuse the facility's water, Mr. Smith said. It will cut water usage to a quarter of that of a typical car wash, he said.

E-mail Jason M. Reynolds at jreynolds@timesfreepress.com



Staff Photo by Ashlie White

Brian Berry, left, and Leah Peluso finish cleaning the interior of a customer's car at Hamilton Place Car Wash on Tuesday.

LEASING AGEN

Seek

Chattanooga, TN
STANDIFER PLAC
APARTMENT

LEGAL SECRET

Lega

Chattanooga, TN
Confidential

Driver- N

Chattanooga, TN
ADVERTISING

[More jobs](#)

DIRECTOR

BRIDAL | TRA

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



[Subscribe Here!](#)

[How to avoid heat stroke](#)

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



[Site](#)



[Archives](#)



[Web](#)

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | M | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Be the King
of Your Castle



BUILD YOUR OWN CASTLE
↑ DRAG HERE ↑



Refinance
\$400,000 for
\$300,000 for
\$200,000 for
*Terms and

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
Chattanooga Times Free Press



Watch your favorite shows. All in one place.



[HOME](#) [NEWS](#) [SPORTS](#) [ENTERTAINMENT](#) [MULTIMEDIA](#) [BLOGS](#) [PHOTOS](#) [JOBS](#) [HOME](#)

[Home »](#)
Tuesday, May 15, 2007 , 12:00 a.m.

State approves 12% water rate hike for Chattanooga

By Jason M. Reynolds
Staff Writer

A drink of water will cost more in Chattanooga on May 22, with Tennessee-American Water Co. receiving state regulators' approval to raise the average residential bill by about \$1.83 per month, a 12.3 percent increase.

"That's certainly an outrageous increase," said Dan Johnson, chief of staff for Chattanooga Mayor Ron Littlefield. "We know the rate increase will go to people in Germany."

The Tennessee Regulatory Authority ruled Tuesday afternoon to give Tennessee-American nearly \$4.1 million more per year from the utility's 74,000 customers. The company had asked for nearly \$6.4 million more per year, a 19.7 percent increase. The rate increase is the highest ever for water in Chattanooga. The last residential increase, 3.8 percent, was in 2005.

Tennessee-American officials believe the regulatory hearing was a fair process, said John Watson, the company's vice president.

"While we believe our rate request was justified. We understand the TRA faced a great challenge," Mr. Watson said. "We want our customers to know we are committed to providing them with the high quality of water and service they are accustomed to."

Tennessee-American will have to "live within the parameters" of the lower-than-requested increase, Mr. Watson said.

The Chattanooga Manufacturers Association had petitioned against the increase. The association argued that a Tennessee-American study showed industrial water users were being asked to pay a disproportionate share of the increase, said Ray Childers, president of the association.

"We're disappointed with the results of this hearing," Mr. Childers said. "We think ... large-volume industrial users are paying more than their share of the cost."

Mr. Childers said the manufacturers association will talk to city and Hamilton County leaders about exploring any possible legal options.

Mr. Johnson said city officials have not had time to decide whether to take further action. The rate hike will cost

ARTICLE TOOLS

 E-mail story

 Printer friendly version

 iPod friendly version

 Share and Enjoy

 Text Size: A A A A

SHOP



Over 80,000 Titles



F

Looking for career
dental assisting,
visi



Featured Property



Signal Mountain
\$274,000
3 Bed
Click for more

Chattanooga Times Free Press

city government between \$75,000 and \$80,000 more for water annually, officials said.

Tennessee-American is a subsidiary of American Water Works, which was bought in 2001 by RWE Group in Germany. RWE plans to sell American Water in a stock offering later this year, according to company officials. However, Mr. Watson said the offering had nothing to do with the rate increase.

E-mail Jason M. Reynolds at jreynolds@timesfreepress.com

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke



DRIVERS NEED

Chatt

Chattanooga, TN
AFFILIATED
TRUCKING

SKILLED TRAD

IMMED

Chattanooga, TN
CALIPER, INC.

SALES ASSOCI.

Fas

Chattanooga, TN
SWEETLY SOUTH

[More jobs](#)

DIRECTOR

BRIDAL | TRA

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#)

[COMMUNITY](#) | [FYI](#)

Search:



☒ Site | ☐ Archives | ☐ Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp
Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search I

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | M
| Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics
Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets &
Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.

[SITE MAP](#) | [MOBILE](#) | [EMAILS](#) | [SUBSCRIBE](#) | [ARCHIVES](#) | [CONTACT US](#) | [ADVERTISE](#) | [PROMOTIONS](#) | [SUBMIT EVENTS](#) | [FEEDBACK](#)

Find Your Graduating Class


I graduated in:

☐ 1971
 ☐ 1972
 ☐ 1973
 ☐ 1974
 ☐ 1975

WEDNESDAY, JULY 30TH, 2008

timesfreepress.com
 Chattanooga Times Free Press


H&R BLOCK
 You got people.
 hrblock.com

The H&R Block Income Tax Course helped me find my way through tax.
*Not an offer of employment.

[HOME](#) | [NEWS](#) | [SPORTS](#) | [ENTERTAINMENT](#) | [MULTIMEDIA](#) | [BLOGS](#) | [PHOTOS](#) | [JOBS](#) | [HOME](#)
[Home »](#)

Wednesday, March 28, 2007 , 12:00 a.m.

Paying more at the tap

ARTICLE TOOLS

-  E-mail story
-  Printer friendly version
-  iPod friendly version
-  Share and Enjoy
-  Text Size: A A A A

The June 2006 - Allen & Hoshall Tennessee Rate Study

By Dave Flessner

Staff Writer

Eastside Utility District is using part of Chattanooga's past to prepare for its future.

And like water users elsewhere, the customers of the Ooltewah utility soon may have to pay a price for upcoming changes.

By May, utility workers hope to bring out of retirement another portion of a 65-year-old water filtration system originally built by the U.S. Army to help win World War II. The \$4 million project, designed to help Chattanooga win new industry and keep pace with residential growth around Ooltewah, also could bring higher water rates by this fall, the utility's manager said Wednesday.

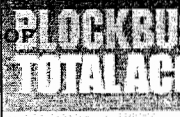
"It's been over 10 years since we had a rate increase, but we're having to in

 vest more now to upgrade our system, and we're going to have to soon raise our rates," Eastside General Manager Don Stafford said.

Mr. Stafford, who also is chairman of the Hamilton County Water Utilities Association, said water utilities everywhere are facing higher operating and investment costs from rising energy and labor expenses and stricter water-quality rules.

As a result, many Tennesseans soon may be paying more at the tap.

"Historically, we as a culture have put a lot of pressure on keeping water as cheap as possible," said Bill Dobbins, executive director of the Tennessee Association of Utilities, which represents the state's 185 water utility districts. "But we're cheating ourselves. To meet our future needs for abundant, clean water, we're going to have to be willing to pay more for our water."

SHOP


Over 80,000 Titles



F

Looking for gut

V



Featured Property



Signa Moun
\$274,
3 Bed
Click more

Chattanooga Times Free Press




Last year, the Savannah Valley Utility District in northern Hamilton County adopted its first overall water rate increase in 11 years. Walden's Ridge Utility District on Signal Mountain is preparing to more than triple its tapping fee charged to new customers from \$900 to \$3,500 in May.

Hamilton County commissioners are expected today to hear a similar message from Chattanooga's biggest water system.

Tennessee-American Water Co., the state's biggest private water utility, is seeking a rate increase of nearly 20 percent this spring in the utility's biggest dollar rate proposal ever.

"The costs of pipes, pumps and people continue to rise, and in order to make the type of investment we need to maintain and improve our system. We need to raise our rates," said John Watson, general manager for Tennessee-American, which has invested more than \$26 million in Chattanooga in the past two years.

The Tennessee Regulatory Authority, the state agency that governs private utilities, will conduct a hearing on Tennessee-American's proposed rate hike next month. But the County Commission wanted to hear about the rate increase at its agenda meeting today.

Mr. Watson said the proposed rate increase would cost the typical water user another \$3 a month and will be the first rate increase since March 2005 when Tennessee-American was granted about a 1 percent increase by the TRA.

comparing water rates

A water rate survey last year by the Memphis consulting firm of Allen & Hoshall found that water charges for the biggest water providers in Southeast Tennessee -- Tennessee-American; the cities of Cleveland, Athens and South Pittsburg; and the Hixson and Eastside Utility Districts -- were all below the statewide average of \$22.84 a month per residential customer.

Some smaller water utilities, especially those in rocky, mountainous terrain, have water rates that are much higher, according to the survey.

Tennessee-American water rates are higher than either the Hixson or Eastside Utility districts, which are the biggest of the public water systems in Hamilton County.

Mr. Watson said the private water company is the only local water supplier that does not impose a meter charge to tap into its system. Additionally, Tennessee-American pays back to developers some or all of their water system investments made in new subdivisions as homes are built and hook onto Tennessee-American. The public water utility districts require all such expenses to be paid by developers.

Unlike Tennessee-American, which is regulated by the TRA, the rest of Hamilton County is served by water utility districts governed by board members appointed by the county mayor.

Water utility districts are self-governed and may adjust water rates as they choose, although the state's Utility Management Review Board oversees district finances.

David Norton, a Hixson Utility District director who is chairman of the state oversight board, said Hamilton County water utilities are in good financial condition.

"Our industry is certainly much healthier than when the management review board began in 1987," Mr. Norton said. "There were probably five to 10 times more utility districts then that were financially distressed."

Among the gas and water utility districts audited by the Utility Management Review committee, only four were still under the jurisdiction of the board because of financial problems at the end of 2006, according to the board's annual report.

improving liquidity

Mr. Dobbins and other industry leaders said Tennessee water systems have made significant progress in both their fiscal and environmental health over the past two decades. Nonetheless, the U.S. Environmental Protection Agency still has warned about "an infrastructure gap" that could cost consumers billions of dollars nationwide to fill.

"Many water and waste-water systems are in need of a lot of investment to meet water-quality standards and to

AD MARKETING

REP. In

Chattanooga, TN
DOWNEY, ANISS

HAIR CARE

PROFESSIO

Chattanooga, TN
WILDFIRE LLC

INSURANCE AG

Lead

Chattanooga, TN
SENIOR LIFE
INSURANCE
COMPANY

[More jobs](#)

DIRECTOR

BRIDAL | TRA

maintain and repair networks that were built decades ago," said Jan Beecher, director of the Institute of Public Utilities at Michigan State University. "Water rates and water issues in many communities are going to continue to be a challenge."

Dr. Beecher's studies indicate water rates nationwide have risen faster than inflation in the past five years.

But in dollar terms, Mr. Watson said the typical Chattanooga consumer has faced bigger monthly increases in recent years from electricity, natural gas and cable TV rates.

Despite the upward pressure on rates at many utilities, however, Hixson Utility District expects to be able to hold the line on its costs.

Gene Huffine, general manager for the Hixson utility, said underground aquifers still are clean and plentiful enough in Hixson to supply water for more than 22,000 customers at some of the lowest rates in Tennessee.

"We are blessed with a very high-quality water source," he said.

Eastside, the county's second-biggest water utility district, relied upon wells until the early 1990s when turbidity problems forced the utility to convert to surface water from the Tennessee River.

Eastside acquired the former Army water filtration plant, which supplies 16 million gallons of water a day. The expansion will boost that capacity to 20 million gallons a day, said David Hudson, assistant district manager.

The former military plant could be retrofitted to produce up to 32 million gallons of water a day if major water-using manufacturers locate at the adjacent Enterprise South industrial park, Mr. Stafford said.

E-mail Dave Flessner at dflessner@timesfreepress.com

Share and Enjoy...

These icons link to social bookmarking sites where readers can share and discover new web pages.



Subscribe Here!

How to avoid heat stroke

HOME | NEWS | SPORTS | ENTERTAINMENT | MULTIMEDIA | BLOGS | PHOTOS

COMMUNITY | FYI

Search: |



Site |



Archives |



Web

TimesFreePress.com: Latest News | Local/Region | Obituaries | Columnists | Editorial Cartoons | Business | Politics | Health | News Projects | Web Exclusives | Preps Sp Life / Entertainment | Baby Boomers | Local Video | Podcasts | Multimedia Projects | Blogs | Photo Gallery | Slideshows

Community: News | Correspondents

Fyi: Web Exclusives | Top Picks | Music | Movies | Dining | Arts | MediaBytes | Out&About | Today's Events | Event Search | Submit Events | Search FYI Articles | Search F

Jobs: Create an Account | Log in | Post a Resume | Search Jobs | Related Job Articles | I Love My Job | What are you Worth? | Cost-of-living Calculator | Job Assessor | A | Research Companies | Post Jobs Online | Post Jobs Online + Newspaper

Cars: Find a Vehicle | Sell Your Vehicle | Find a Dealer | Recreational Vehicles | Research & Resources | Car Review | Cruisin Articles | Readers' Rides Articles | View Car

Homes: Search for Sale | Search for Rent | Articles, Tools & Resources | School Information | Community Information | Homefinder | Agent Directory | Property Value Rese

Shop: Announcements | Apparel | Appliances | Automotive & Boating | Books & Magazines | Camera & Photo | Computers & Software | Coupons | Education | Electronics | Gifts | Food & Beverage | Furniture | Garage/Yard Sales | Health & Beauty | Home & Garden | Jewelry & Watches | Merchandise | Movies & Music | Office Produs | Pets & Games & Video Games | Travel & Luggage | Advertiser List | Coupons | Ask the Experts | Find A Business

Misc.: Spotted | Search Articles | Search Archive | Full Access | Subscribe | Contact Us | Advertise | Promotions | Submit Events | Feedback | Place an Ad

© Copyright, permissions and privacy policy **Copyright ©2008, Chattanooga Publishing Company, Inc. All rights reserved.**
This document may not be reprinted without the express written permission of Chattanooga Publishing Company, Inc.



National Oceanic and Atmospheric Administration's

National Weather Service

Site Map

News

Organization

Search

☒ NWS ☐ All NOAA

Local forecast by
"City, St"

Click on the map below to obtain local three-month temperature outlook information.

City, St

Warnings

Current

By State/County...

UV Alerts

Observations

Radar

Satellite

Snow Cover

Surface Weather...

Observed Precip

Forecasts

Local

Graphical

Aviation

Marine

Hurricanes

Severe Weather...

Fire Weather

Text Messages

By State

By Message Type

National

Forecast Models

Numerical Models

Statistical Models...

MOS Prod

GFS-LAMP Prod

Climate

Past Weather

Predictions

Weather Safety

Weather Radio

Hazard Assmt...

StormReady /

TsunamiReady

Skywarn™

Education/Outreach

Information Center

Tsunamis

Publications...

Contact Us

FAQ

Comments...



Warnings &
Forecasts

Graphical
Forecasts

National
Maps

Radar

Water

Air Quality

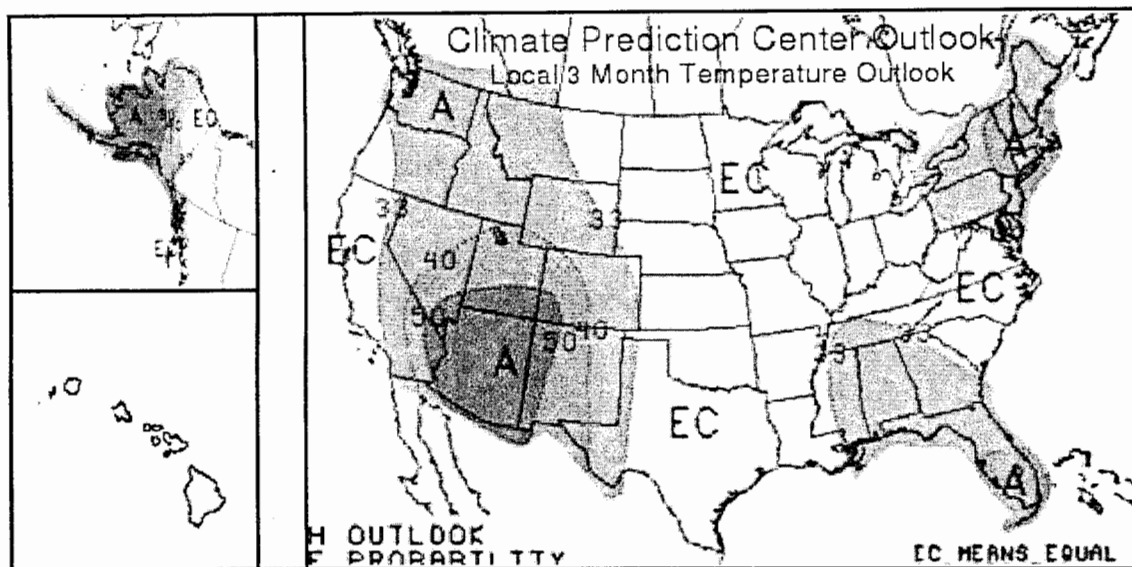
Satellite

Climate

Max/Min Temperatures

Issued: July 2008

Jun-Jul-Aug 2009



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?

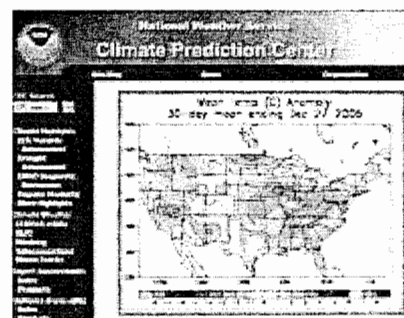
Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

View Results

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National
Temperature Averages for past 90 days



US Dept of Commerce

Disclaimer

Privacy Policy

National Oceanic and Atmospheric Administration Information Quality Freedom of Information Act (FOIA)



National Oceanic and Atmospheric Administration's

National Weather Service



Site Map

News

Organization

Search

☒ NWS

☐ All NOAA

Go

Local forecast by
"City, St"

City, St

☒ RSS Feeds

Warnings
Current
By State/County...
UV Alerts

Observations
Radar
Satellite
Snow Cover
Surface Weather...
Observed Precip

Forecasts
Local
Graphical
Aviation
Marine
Hurricanes
Severe Weather
Fire Weather
Text Messages
By State
By Message Type
National

Forecast Models
Numerical Models
Statistical Models...
MOS Prod
GFS-LAMP Prod

Climate
Past Weather
Predictions

Weather Safety
Weather Radio
Hazard Assmt...
StormReady /
TsunamiReady
Skywarn™

Education/Outreach
Information Center
Tsunamis
Publications...

Contact Us
FAQ
Comments...



Click on the map below to obtain local three-month temperature outlook information.

Warnings & Forecasts

Graphical Forecasts

National Maps

Radar

Water

Air Quality

Satellite

Climate

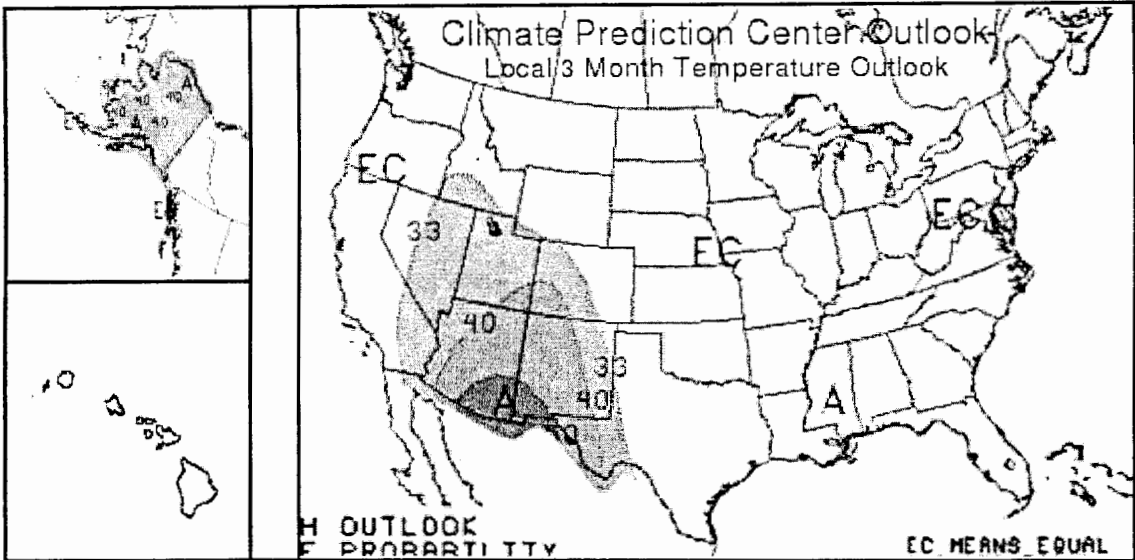
Max/Min Temperatures

Go

Issued: July 2008

Apr-May-Jun 2009

Go!



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?

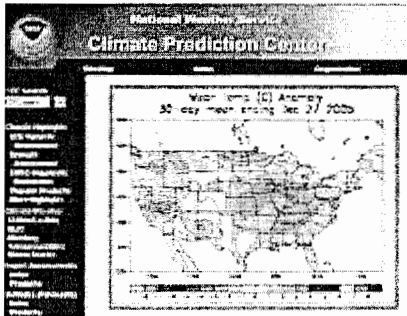
Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

View Results

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National
Temperature Averages for past 90 days



National Oceanic and Atmospheric Administration's

National Weather Service


[Site Map](#)
[News](#)
[Organization](#)
[Search](#)
☒ NWS ☐ All NOAA

Local forecast by
"City, St"

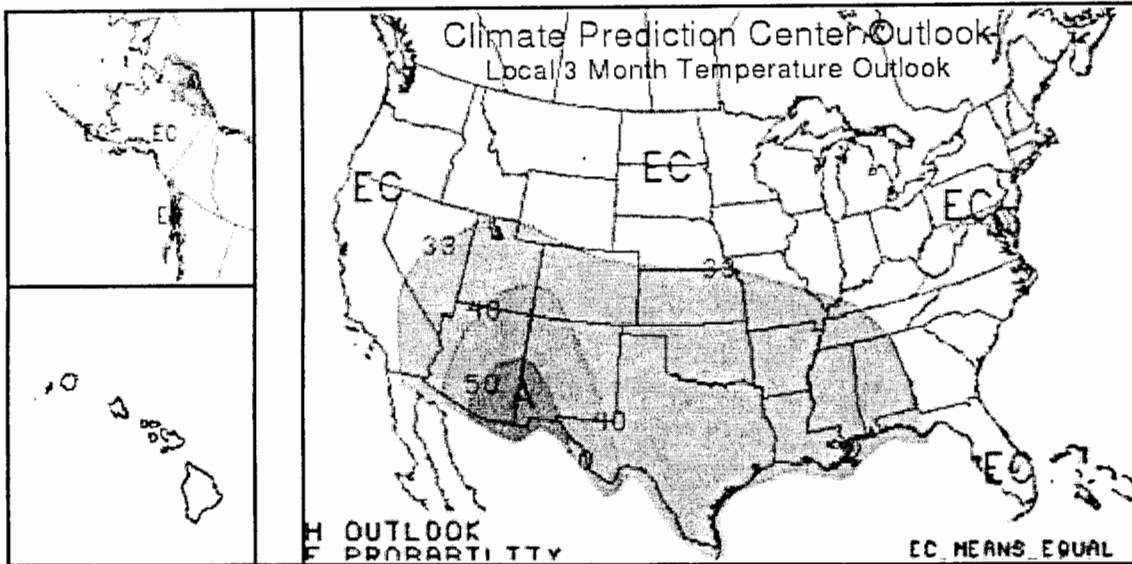
Click on the map below to obtain local three-month temperature outlook information.

City, St
[RSS Feeds](#)
[Warnings](#)
[Current](#)
[By State/County...](#)
[UV Alerts](#)
[Observations](#)
[Radar](#)
[Satellite](#)
[Snow Cover](#)
[Surface Weather...](#)
[Observed Precip](#)
[Forecasts](#)
[Local](#)
[Graphical](#)
[Aviation](#)
[Marine](#)
[Hurricanes](#)
[Severe Weather](#)
[Fire Weather](#)
[Text Messages](#)
[By State](#)
[By Message Type](#)
[National](#)
[Forecast Models](#)
[Numerical Models](#)
[Statistical Models...](#)
[MOS Prod](#)
[GFS-LAMP Prod](#)
[Climate](#)
[Past Weather](#)
[Predictions](#)
[Weather Safety](#)
[Weather Radio](#)
[Hazard Assmt...](#)
[StormReady /](#)
[TsunamiReady](#)
[Skywarn™](#)
[Education/Outreach](#)
[Information Center](#)
[Tsunamis](#)
[Publications...](#)
[Contact Us](#)
[FAQ](#)
[Comments...](#)

[Warnings & Forecasts](#)
[Graphical Forecasts](#)
[National Maps](#)
[Radar](#)
[Water](#)
[Air Quality](#)
[Satellite](#)
[Climate](#)

Max/Min Temperatures

Issued: July 2008

Mar-Apr-May 2009


EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

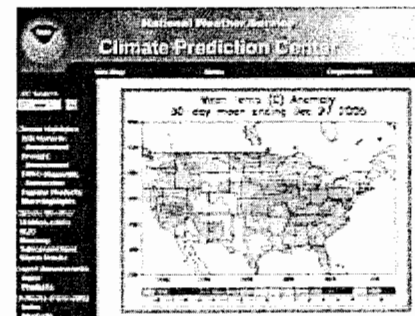
Would you like to look at your local information?

Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

View Results

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National
Temperature Averages for past 90 days


US Dept of Commerce

Disclaimer

Privacy Policy

National Oceanic and Atmospheric Administration Information Quality Freedom of Information Act (FOIA)

National Oceanic and Atmospheric Administration's

National Weather Service


[Site Map](#)
[News](#)
[Organization](#)
[Search](#)
☒ NWS ☐ All NOAA

Local forecast by
"City, St"

City, St

RSS Feeds

Warnings

Current

By State/County...

UV Alerts

Observations

Radar

Satellite

Snow Cover

Surface Weather...

Observed Precip

Forecasts

Local

Graphical

Aviation

Marine

Hurricanes

Severe Weather

Fire Weather

Text Messages

By State

By Message Type

National

Forecast Models

Numerical Models

Statistical Models...

MOS Prod

GFS-LAMP Prod

Climate

Past Weather

Predictions

Weather Safety

Weather Radio

Hazard Assmt...

StormReady /

TsunamiReady

Skywarn™

Education/Outreach

Information Center

Tsunamis

Publications...

Contact Us

FAQ

Comments...


USA.gov
Government Made Easy

Click on the map below to obtain local three-month temperature outlook information.

Warnings &
Forecasts

Graphical
Forecasts

National
Maps

Radar

Water

Air Quality

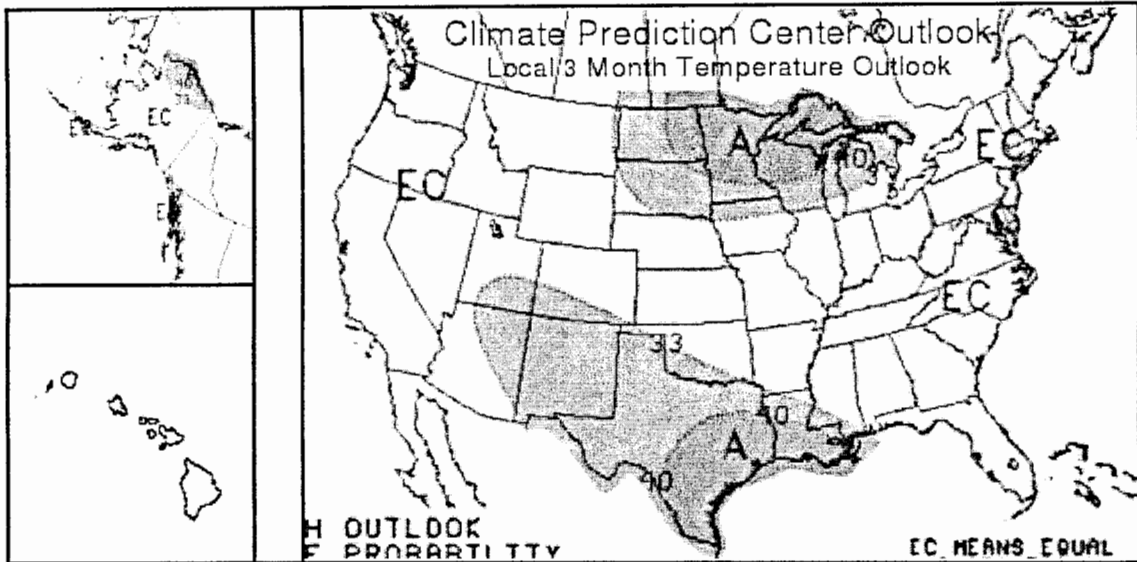
Satellite

Climate

Max/Min Temperatures

Issued: July 2008

Feb-Mar-Apr 2009



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

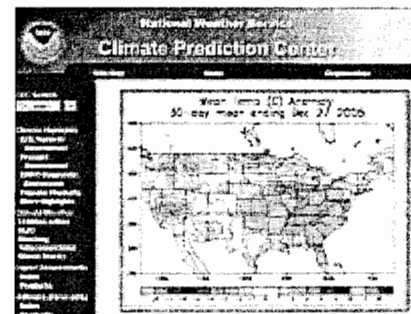
Would you like to look at your local information?

Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

View Results

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National
Temperature Averages for past 90 days


US Dept of Commerce

Disclaimer

Privacy Policy

National Oceanic and Atmospheric Administration Information Quality Freedom of Information Act (FOIA)



National Oceanic and Atmospheric Administration's
National Weather Service



[Site Map](#) [News](#) [Organization](#) [Search](#) ☒ NWS ☐ All NOAA

Local forecast by
"City, St"

City, St

- Warnings
- Current
- By State/County...
- UV Alerts
- Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

- Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather

- Text Messages
- By State
- By Message Type
- National

- Forecast Models
- Numerical Models
- Statistical Models...
- MOS Prod
- GFS-LAMP Prod

- Climate
- Past Weather
- Predictions

- Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady /
- TsunamiReady
- Skywarn™

Education/Outreach

- Information Center
- Tsunamis
- Publications...

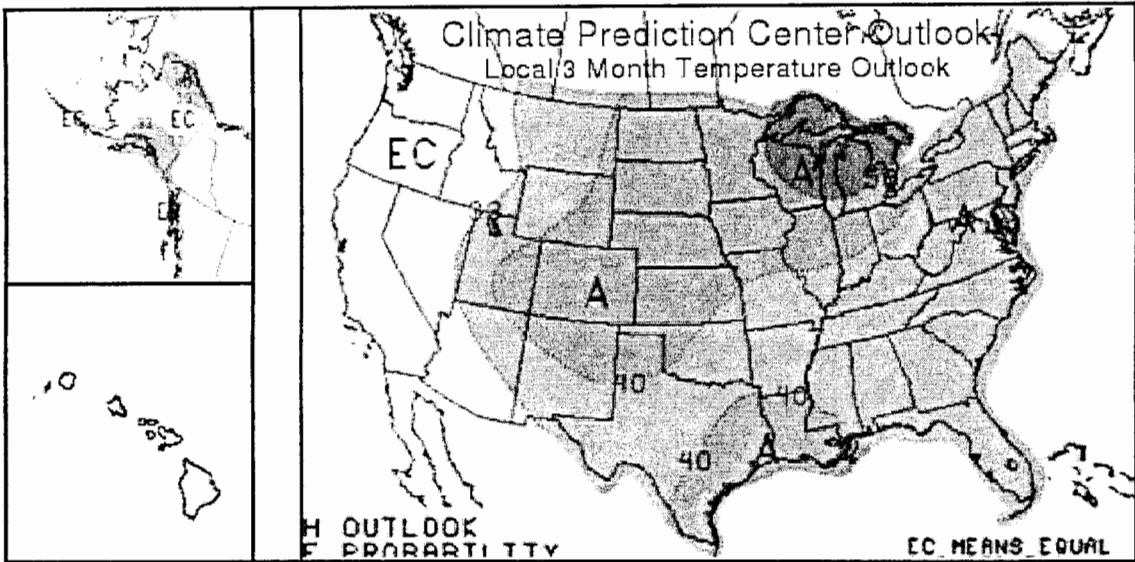
- Contact Us
- FAQ
- Comments...



Click on the map below to obtain local three-month temperature outlook information.

[Warnings & Forecasts](#) | [Graphical Forecasts](#) | [National Maps](#) | [Radar](#) | [Water](#) | [Air Quality](#) | [Satellite](#) | [Climate](#)

[Max/Min Temperatures](#) **Issued: July 2008** [Jan-Feb-Mar 2009](#)



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?

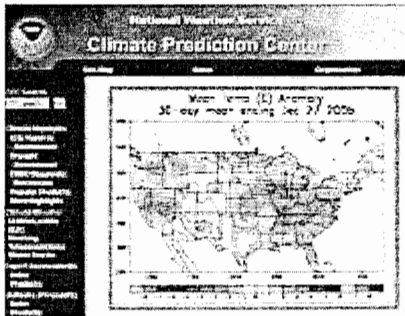
Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

[View Results](#)

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

**Click right thumbnail to see National
Temperature Averages for past 90 days**





National Oceanic and Atmospheric Administration's

National Weather Service

weather.gov



Site Map

News

Organization

Search

☒ NWS

☐ All NOAA

Go

- Local forecast by "City, St"
-
- Warnings
- Current
- By State/County...
- UV Alerts
- Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip
- Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather
- Text Messages
- By State
- By Message Type
- National
- Forecast Models
- Numerical Models
- Statistical Models...
- MOS Prod
- GFS-LAMP Prod
- Climate
- Past Weather
- Predictions
- Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady /
- TsunamiReady
- Skywarn™
- Education/Outreach
- Information Center
- Tsunamis
- Publications...
- Contact Us
- FAQ
- Comments...

Click on the map below to obtain local three-month temperature outlook information.

Warnings & Forecasts

Graphical Forecasts

National Maps

Radar

Water

Air Quality

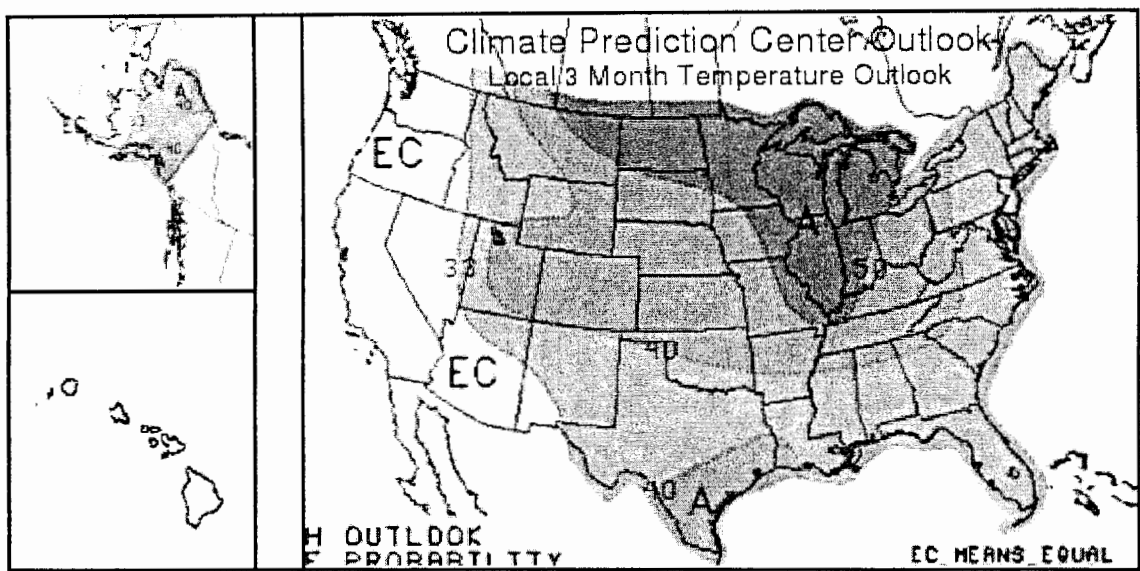
Satellite

Climate

Max/Min Temperatures

Issued: July 2008

Dec-Jan-Feb 2008_09



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

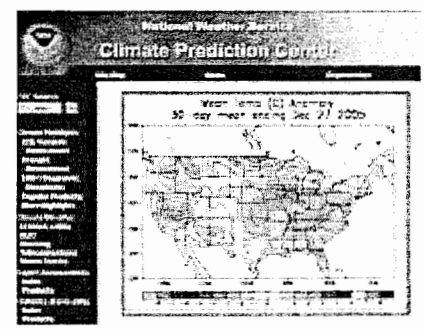
Would you like to look at your local information?

Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National
Temperature Averages for past 90 days



Warning: ini_set() has been disabled for security reasons in /mnt/www/www/html/climate/config.php on line 10



National Oceanic and Atmospheric Administration's
National Weather Service

weather.gov



- Site Map
- News
- Organization
- Search
- ☒ NWS
- ☐ All NOAA
- Go

Local forecast by
"City, St"

City, St

☒ RSS Feeds

- Warnings
- Current
- By State/County...
- UV Alerts

- Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip

- Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather
- Text Messages
- By State
- By Message Type
- National

- Forecast Models
- Numerical Models
- Statistical Models...
- MOS Prod
- GFS-LAMP Prod

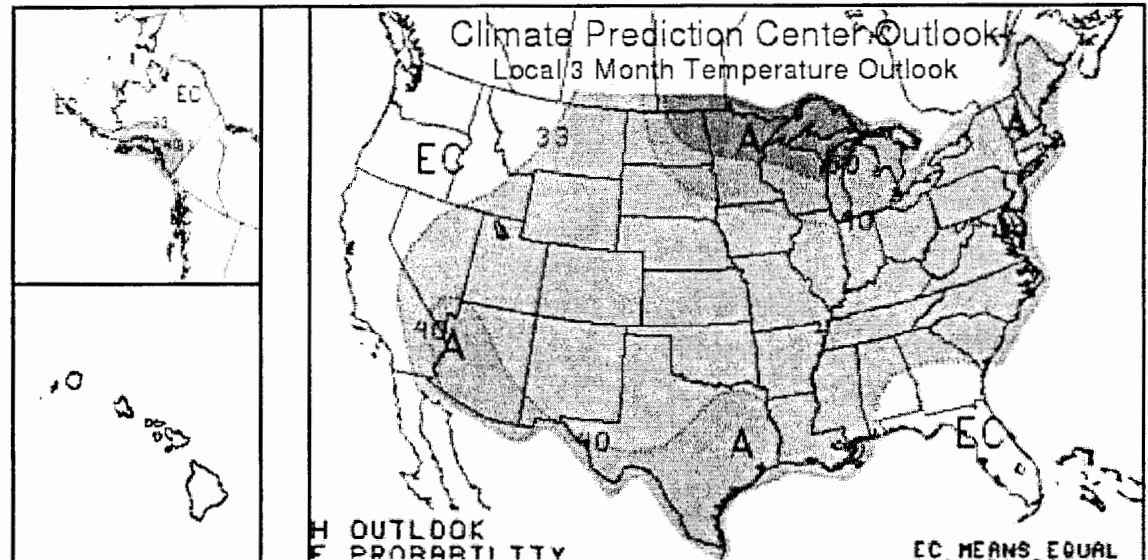
- Climate
- Past Weather
- Predictions

- Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady /
- TsunamiReady
- Skywarn™

- Education/Outreach
- Information Center
- Tsunamis
- Publications...
- Contact Us
- FAQ
- Comments...

Click on the map below to obtain local three-month temperature outlook information.

- Warnings & Forecasts
 - Graphical Forecasts
 - National Maps
 - Radar
 - Water
 - Air Quality
 - Satellite
 - Climate
- Max/Min Temperatures Issued: July 2008 Nov-Dec-Jan 2008_09



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?

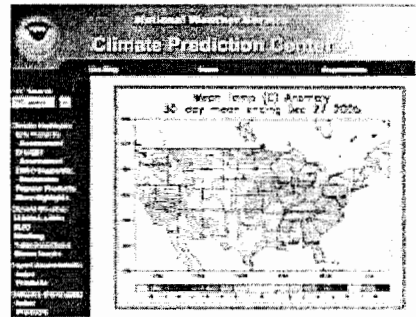
Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

View Results

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

**Click right thumbnail to see National
Temperature Averages for past 90 days**





National Oceanic and Atmospheric Administration's

National Weather Service

weather.gov



Site Map

News

Organization

Search

☒ NWS

☐ All NOAA

Go

- Local forecast by "City, St"
-  RSS Feeds
- Warnings
- Current
- By State/County...
- UV Alerts
- Observations
- Radar
- Satellite
- Snow Cover
- Surface Weather...
- Observed Precip
- Forecasts
- Local
- Graphical
- Aviation
- Marine
- Hurricanes
- Severe Weather
- Fire Weather
- Text Messages
- By State
- By Message Type
- National
- Forecast Models
- Numerical Models
- Statistical Models...
- MOS Prod
- GFS-LAMP Prod

Click on the map below to obtain local three-month temperature outlook information.

Warnings & Forecasts

Graphical Forecasts

National Maps

Radar

Water

Air Quality

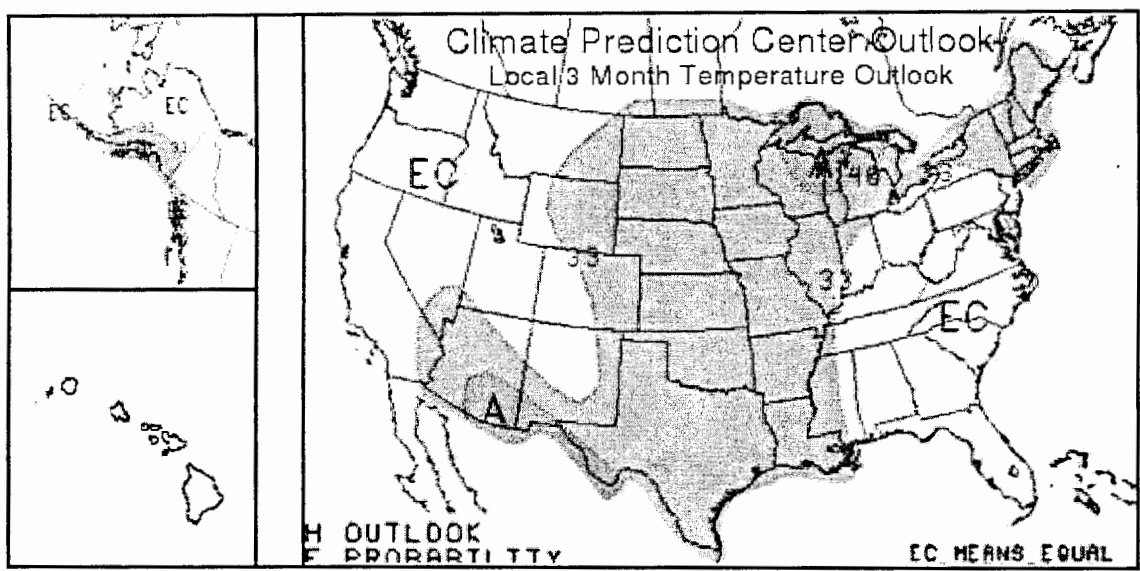
Satellite

Climate

Max/Min Temperatures

Issued: July 2008

Oct-Nov-Dec 2008



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?

Click on the map above or enter a location and time period below.

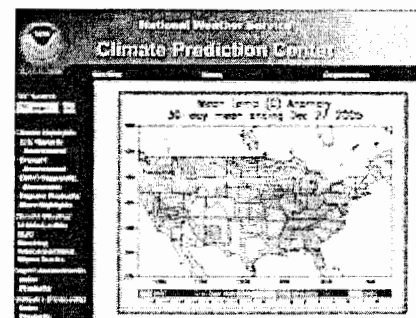
Search for a Location ('City, ST' or 'Zip')

View Results

- Climate
- Past Weather
- Predictions
- Weather Safety
- Weather Radio
- Hazard Assmt...
- StormReady /
- TsunamiReady
- Skywarn™
- Education/Outreach
- Information Center
- Tsunamis
- Publications...
- Contact Us
- FAQ
- Comments...

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National Temperature Averages for past 90 days





National Oceanic and Atmospheric Administration's
National Weather Service



[Site Map](#) [News](#) [Organization](#) [Search](#) ☒ [NWS](#) ☐ [All NOAA](#)

Local forecast by
"City, St"

City, St

[RSS Feeds](#)

- [Warnings](#)
- [Current](#)
- [By State/County...](#)
- [UV Alerts](#)
- [Observations](#)
- [Radar](#)
- [Satellite](#)
- [Snow Cover](#)
- [Surface Weather...](#)
- [Observed Precip](#)

- [Forecasts](#)
- [Local](#)
- [Graphical](#)
- [Aviation](#)
- [Marine](#)
- [Hurricanes](#)
- [Severe Weather](#)
- [Fire Weather](#)

- [Text Messages](#)
- [By State](#)
- [By Message Type](#)
- [National](#)

- [Forecast Models](#)
- [Numerical Models](#)
- [Statistical Models...](#)
- [MOS Prod](#)
- [GFS-LAMP Prod](#)

- [Climate](#)
- [Past Weather](#)
- [Predictions](#)

- [Weather Safety](#)
- [Weather Radio](#)
- [Hazard Assmt...](#)
- [StormReady /](#)
- [TsunamiReady](#)
- [Skywarn™](#)

- [Education/Outreach](#)
- [Information Center](#)
- [Tsunamis](#)
- [Publications...](#)

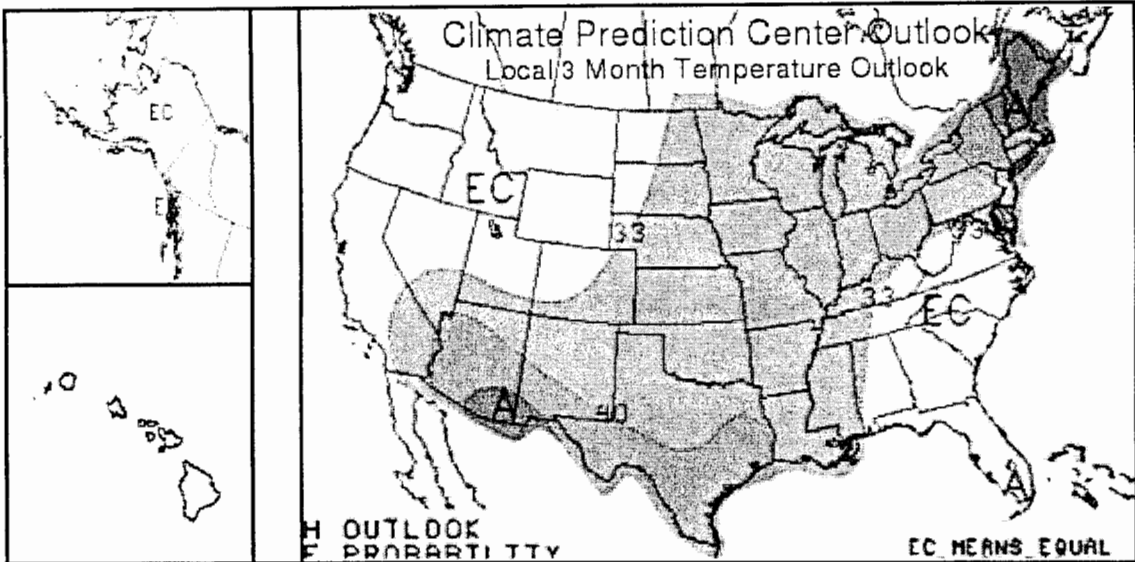
- [Contact Us](#)
- [FAQ](#)
- [Comments...](#)



Click on the map below to obtain local three-month temperature outlook information.

[Warnings & Forecasts](#) [Graphical Forecasts](#) [National Maps](#) [Radar](#) [Water](#) [Air Quality](#) [Satellite](#) [Climate](#)

[Max/Min Temperatures](#) [Issued: July 2008](#) [Sep-Oct-Nov 2008](#)



EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?

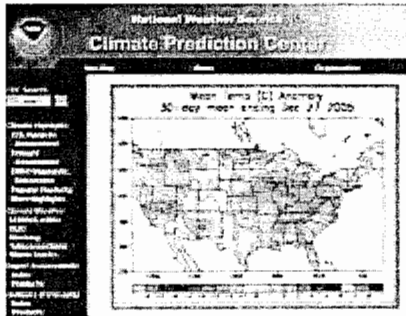
Click on the map above or enter a location and time period below.

Search for a Location ('City, ST' or 'Zip')

[View Results](#)

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

**Click right thumbnail to see National
Temperature Averages for past 90 days**





National Oceanic and Atmospheric Administration's
National Weather Service



[Site Map](#) [News](#) [Organization](#) [Search](#) ☒ [NWS](#) ☐ [All NOAA](#)

Local forecast by
"City, St"

 [Warnings](#)

[Current](#)
[By State/County...](#)
[UV Alerts](#)
[Observations](#)
[Radar](#)
[Satellite](#)
[Snow Cover](#)
[Surface Weather...](#)
[Observed Precip](#)

[Forecasts](#)
[Local](#)
[Graphical](#)
[Aviation](#)
[Marine](#)
[Hurricanes](#)
[Severe Weather](#)
[Fire Weather](#)

[Text Messages](#)
[By State](#)
[By Message Type](#)
[National](#)

[Forecast Models](#)
[Numerical Models](#)
[Statistical Models...](#)
[MOS Prod](#)
[GFS-LAMP Prod](#)

[Climate](#)
[Past Weather](#)
[Predictions](#)

[Weather Safety](#)
[Weather Radio](#)
[Hazard Assmt...](#)
[StormReady /](#)
[TsunamiReady](#)
[Skywarn™](#)

[Education/Outreach](#)

[Information Center](#)
[Tsunamis](#)
[Publications...](#)

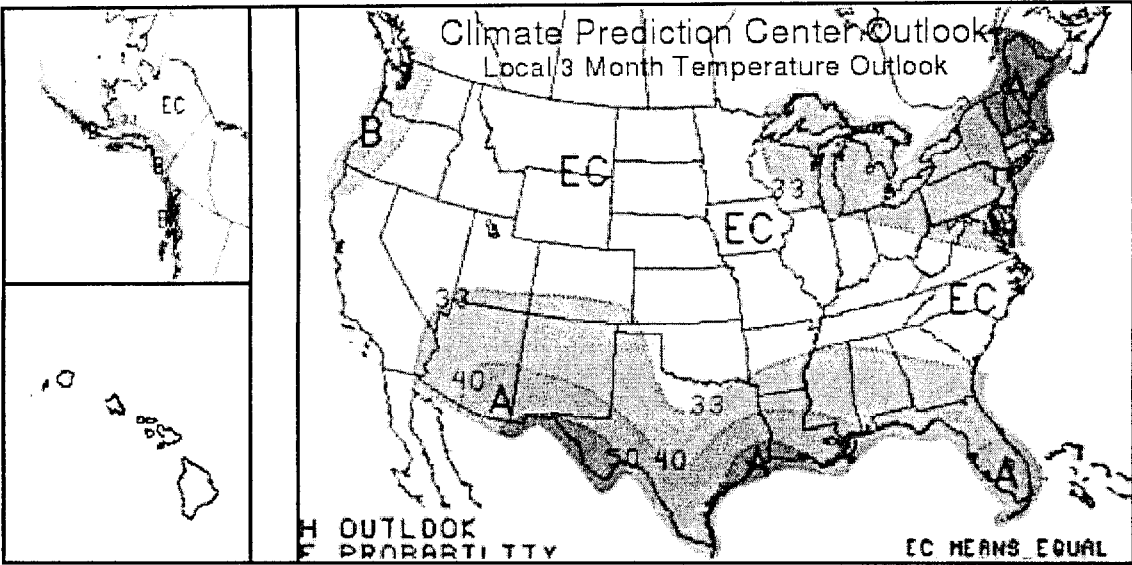
[Contact Us](#)
[FAQ](#)
[Comments...](#)



Click on the map below to obtain local three-month temperature outlook information.

[Warnings & Forecasts](#) [Graphical Forecasts](#) [National Maps](#) [Radar](#) [Water](#) [Air Quality](#) [Satellite](#) [Climate](#)

[Max/Min Temperatures](#) [Issued: July 2008](#) [Aug-Sep-Oct 2008](#)

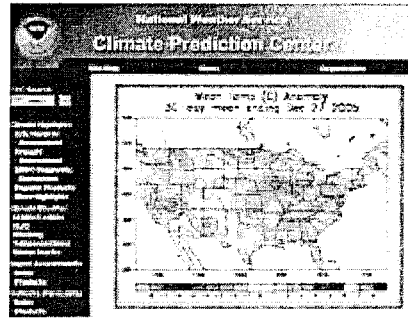


EC - Means equal chances for A, N, B. A - Means Above N - Means Normal B - Means Below

Would you like to look at your local information?
Click on the map above or enter a location and time period below.
Search for a Location ('City, ST' or 'Zip')

National map provided by
NOAA National Centers for Environmental Prediction Climate Prediction Center

Click right thumbnail to see National
Temperature Averages for past 90 days



U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL
CLIMATOLOGICAL
SUMMARY
(2008)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: 401656/13882, CHATTANOOGA LOVELL AP,
Tennessee

Elev. 671 ft. above sea level

Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)									
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP	
2008 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Number of Days				Total	Depart. from Normal	Greatest Observed		Snow, Sleet			Number		
											Max >=90°	Max <=32°	Min <=32°	Min <=0°			Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=	
1	50.2	30.0	40.1	0.7	763	0	71	7	14	20	0	2	18	0	3.18	-2.22	1.30	10	1.6	0T	17	5		
2	56.4	33.6	45.0	1.6	571	0	74	5	21	28	0	0	13	0	4.44	-0.41	1.16	6	0.0T	0T	15	7		
3	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
4	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
5	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
6	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
7	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
8	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
9	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
10	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
11	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
12	M	M	M	M	M	M	M		M		M	M	M	M	M	M	M		M	M		M		
Annual	M	M	M	M	M	M	M	Feb	M	Jan	M	M	M	M	M	M	M	Jan	M	M	Feb	M		

Notes

- (blank) Not reported.

+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

B Adjusted Total. Monthly value totals based on proportional available data across the entire month.

E An estimated monthly or annual total.
- X Monthly means or totals based on incomplete time series. 1 to 9 days are missing. Annual means or totals include one or more months which had 1 to 9 days that were missing.

M Used to indicate data element missing.

T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

Elem- Element Types are included to provide cross-reference for > users of the NCDC CDO System.

Station Station is identified by: CoopID/WBAN, Station Name, State.
- S Precipitation amount is continuing to be accumulated. Total will be included in a subsequent monthly or yearly value. Example: Days 1-20 had 1.35 inches of precipitation, then a period of accumulation began. The element TPCP would then be 00135S and the total accumulated amount value appears in a subsequent monthly value. If TPCP = "M" there was no precipitation measured during the month. Flag is set to "S" and the total accumulated amount appears in a subsequent monthly value.

Dynamically generated Wed Jul 30 18:47:53 EDT 2008 via <http://cdo.ncdc.noaa.gov/ancsum/ACS>
Data provided from the NCDC CDO System
Additional documentation can be found at <http://www5.ncdc.noaa.gov/cdo/3220doc.txt>

U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL CLIMATOLOGICAL SUMMARY (2007)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: 401656/13882, CHATTANOOGA LOVELL AP,
Tennessee

Elev. 671 ft. above sea level

Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)									
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP	
2007 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Number of Days				Total	Depart. from Normal	Greatest Observed		Snow, Sleet			Number		
											Max ≥90°	Max ≤32°	Min ≤32°	Min ≤0°			Day	Date	Total Fall	Max Depth	Max Date	≥.10	≥.	
1	53.0	34.2	43.6	4.2	655	0	72	14	16	31	0	0	15	0	2.91	-2.49	1.42	7	0.0	0		4		
2	53.0	30.5	41.8	-1.6	644	0	73	28	19	16	0	0	18	0	1.65	-3.20	0.80	25	2.1	0T	18	4		
3	72.2	46.5	59.4	8.0	214	46	88	25	27	5	0	0	3	0	1.74	-4.45	0.74	15	0.0	0		4		
4	70.5	46.3	58.4	-1.2	234	41	88	30	27	7	0	0	2	0	4.19	-0.04	1.03	26	0.0	0		8		
5	84.7	57.9	71.3	3.6	6	209	92	31	45	19	4	0	0	0	1.34	-2.94	0.93	5	0.0	0		2		
6	91.6	66.2	78.9	3.5	0	426	97	24	59	22	22	0	0	0	2.16	-1.83	0.83	25	0.0	0		5		
7	87.7	69.0	78.4	-1.2	0	421	93	9	62	21	9	0	0	0	7.18	2.45	2.74	28	0.0	0		9		
8	97.4	73.9	85.7	7.2	0	645	105	23	71	4	30	0	0	0	1.83	-1.76	0.94	28	0.0	0		3		
9	88.1	64.5	76.3	4.2	0	345	97	5	51	30	14	0	0	0	1.93	-2.38	1.11	14	0.0	0		4		
10	77.9	54.6	66.3	5.9	79	125	91	7	37	30	3	0	0	0	3.63	0.37	2.31	23	0.0	0		4		
11	63.9	38.8	51.4	1.1	401	0	76	21	28	24	0	0	8	0	6.56	1.68	2.43	26	0.0	0		7		
12	58.5	39.5	49.0	6.6	489	0	77	11	25	17	0	0	11	0	3.50	-1.31	1.37	28	0.0T	0T	13	7		
Annual	74.9	51.8	63.4	3.4	2722	2258	105	Aug	16	Jan	82	0	57	0	38.62	-15.90	2.74	Jul	2.1	0	Dec	61		

Notes

(blank) Not reported.

+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

B Adjusted Total. Monthly value totals based on proportional available data across the entire month.

E An estimated monthly or annual total.

X Monthly means or totals based on incomplete time series. 1 to 9 days are missing. Annual means or totals include one or more months which had 1 to 9 days that were missing.

M Used to indicate data element missing.

T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

Elem- Element Types are included to provide cross-reference for users of the NCDC CDO System.

Station Station is identified by: CoopID/WBAN, Station Name, State.

S Precipitation amount is continuing to be accumulated. Total will be included in a subsequent monthly or yearly value. Example: Days 1-20 had 1.35 inches of precipitation, then a period of accumulation began. The element TPCP would then be 00135S and the total accumulated amount value appears in a subsequent monthly value. If TPCP = "M" there was no precipitation measured during the month. Flag is set to "S" and the total accumulated amount appears in a subsequent monthly value.

Dynamically generated Wed Jul 30 18:47:45 EDT 2008 via <http://cdo.ncdc.noaa.gov/ancsum/ACS>

Data provided from the NCDC CDO System

Additional documentation can be found at <http://www5.ncdc.noaa.gov/cdo/3220doc.txt>

U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL CLIMATOLOGICAL SUMMARY (2006)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: **401656/13882, CHATTANOOGA LOVELL AP,
Tennessee**

Elev. 671 ft. above sea level

Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)									
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP	
											Number of Days						Greatest Observed		Snow, Sleet			Number		
2006 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Max >=90°	Max <=32°	Min <=32°	Min <=0°	Total	Depart. from Normal	Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=.	
1	56.8	37.2	47.0	7.6	552	0	69	10	27	7	0	0	10	0	5.19	-0.21	1.27	17	0.0T	0T	3	8		
2	51.9	32.4	42.2	-1.2	634	0	72	16	22	19	0	1	17	0	2.05	-2.80	0.76	3	0.2	0T	20	5		
3	64.5	41.6	53.1	1.7	372	10	81	12	28	27	0	0	4	0	1.94	-4.25	1.04	20	0.0	0		3		
4	77.7	52.9	65.3	5.7	73	89	88	17	39	10	0	0	0	0	5.93	1.70	1.76	19	0.0T	0T	25	8		
5	78.3	56.8	67.6	-0.1	57	142	92	29	44	1	4	0	0	0	3.48	-0.80	0.73	7	0.0T	0T	5	9		
6	88.4	64.9	76.7	1.3	0	359	98	22	54	6	12	0	0	0	2.20	-1.79	1.11	26	0.0	0		3		
7	91.3	70.1	80.7	1.1	0	493	97	20	63	8	20	0	0	0	4.47	-0.26	1.45	13	0.0	0		9		
8	92.4	73.0	82.7	4.2	0	554	100	4	66	24	23	0	0	0	4.74	1.15	1.11	20	0.0	0		11		
9	81.5	60.5	71.0	-1.1	11	199	89	17	46	29	0	0	0	0	4.10	-0.21	1.43	23	0.0T	0T	18	8		
10	70.9	48.6	59.8	-0.6	204	50	88	5	32	24	0	0	1	0	5.67	2.41	2.03	17	0.0	0		5		
11	62.5	39.7	51.1	0.8	414	4	78	10	28	4	0	0	3	0	3.48	-1.40	1.93	15	0.0T	0T	18	3		
12	58.3	34.1	46.2	3.8	575	0	73	18	16	9	0	0	13	0	3.42	-1.39	1.36	22	0.0T	0T	31	6		
Annual	72.9	51.0	62.0	1.9	2892	1900	100	Aug	16	Dec	59	1	48	0	46.67	-7.85	2.03	Oct	0.2	0	Dec	78		

Notes

(blank) Not reported.

+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

B Adjusted Total. Monthly value totals based on proportional available data across the entire month.

E An estimated monthly or annual total.

X Monthly means or totals based on incomplete time series. 1 to 9 days are missing. Annual means or totals include one or more months which had 1 to 9 days that were missing.

M Used to indicate data element missing.

T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

Elem- Element Types are included to provide cross-reference for users of the NCDC CDO System.

Station Station is identified by: CoopID/WBAN, Station Name, State.

S Precipitation amount is continuing to be accumulated. Total will be included in a subsequent monthly or yearly value. Example: Days 1-20 had 1.35 inches of precipitation, then a period of accumulation began. The element TPCP would then be 00135S and the total accumulated amount value appears in a subsequent monthly value. If TPCP = "M" there was no precipitation measured during the month. Flag is set to "S" and the total accumulated amount appears in a subsequent monthly value.

Dynamically generated Wed Jul 30 18:47:39 EDT 2008 via <http://cdo.ncdc.noaa.gov/ancsum/ACS>
Data provided from the NCDC CDO System
Additional documentation can be found at <http://www5.ncdc.noaa.gov/cdo/3220doc.txt>

U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL CLIMATOLOGICAL SUMMARY (2005)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: **401656/13882, CHATTANOOGA LOVELL AP,
Tennessee**

Elev. 689 ft. above sea level

Lat. 35°02'N, Lon. 85°12'W

ennessee

Date	Temperature (° F)														Precipitation (inches)									
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP	
2005 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Number of Days				Total	Depart. from Normal	Greatest Observed		Snow, Sleet			Number		
											Max >=90°	Max <=32°	Min <=32°	Min <=0°			Day	Date	Total Fall	Max Depth	Max Date	>=.10	>=	
1	55.4	35.6	45.5	6.1	598	0	71	4	16	24	0	1	11	0	2.80	-2.60	0.87	13	0.0T	0T	7	6		
2	56.4	37.3	46.9	3.5	501	0	70	22	23	11	0	0	8	0	5.46	0.61	2.10	21	0.0T	0T	9	7		
3	61.4	39.5	50.5	-0.9	446	1	81	26	23	2	0	0	6	0	4.27	-1.92	0.97	31	0.0T	0T	25	8		
4	71.7	47.2	59.5	-0.1	167	8	81	20	33	25	0	0	0	0	3.56	-0.67	1.08	30	0.0	0		7		
5	77.2	53.7	65.5	-2.2	69	93	89	12	41	4	0	0	0	0	1.99	-2.29	0.85	10	0.0	0		5		
6	85.6	66.9	76.3	0.9	0	344	93	30	59	18	7	0	0	0	7.05	3.06	2.02	28	0.0	0		9		
7	88.5	71.5	80.0	0.4	0	472	97	26	66	7	13	0	0	0	6.05	1.32	1.65	11	0.0	0		10		
8	89.7	71.5	80.6	2.1	0	492	96	20	66	31	17	0	0	0	5.00	1.41	1.36	15	0.0	0		10		
9	87.2	63.7	75.5	3.4	0	320	92	20	51	30	12	0	0	0	1.92	-2.39	0.98	16	0.0	0		2		
10	74.2	51.3	62.8	2.4	155	94	87	2	31	30	0	0	1	0	0.75	-2.51	0.38	6	0.0	0		2		
11	64.4	40.2	52.3	2.0	383	11	84	8	25	19	0	0	8	0	3.57	-1.31	1.66	21	0.0	0		5		
12	48.5	29.5	39.0	-3.4	800	0	65	28	20	23	0	0	22	0	3.85	-0.96	1.22	15	0.0	0		9		
Annual	71.7	50.7	61.2	1.2	3119	1835	97	Jul	16	Jan	49	1	56	0	46.27	-8.25	2.10	Feb	0.0	0	Mar	80		

Notes

(blank) Not reported.

+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

B Adjusted Total. Monthly value totals based on proportional available data across the entire month.

E An estimated monthly or annual total.

X Monthly means or totals based on incomplete time series. 1 to 9 days are missing. Annual means or totals include one or more months which had 1 to 9 days that were missing.

M Used to indicate data element missing.

T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

Elem- Element Types are included to provide cross-reference for users of the NCDC CDO System.

Station Station is identified by: CoopID/WBAN, Station Name, State.

S Precipitation amount is continuing to be accumulated. Total will be included in a subsequent monthly or yearly value. Example: Days 1-20 had 1.35 inches of precipitation, then a period of accumulation began. The element TPCP would then be 00135S and the total accumulated amount value appears in a subsequent monthly value. If TPCP = "M" there was no precipitation measured during the month. Flag is set to "S" and the total accumulated amount appears in a subsequent monthly value.

*Dynamically generated Wed Jul 30 18:47:31 EDT 2008 via <http://cdo.ncdc.noaa.gov/ancsum/ACS>
Data provided from the NCDC CDO System
Additional documentation can be found at <http://www5.ncdc.noaa.gov/cdo/3220doc.txt>*

U.S. Department of Commerce
National Oceanic & Atmospheric Administration

ANNUAL CLIMATOLOGICAL SUMMARY (2004)

National Climatic Data Center
Federal Building
151 Patton Avenue
Asheville, North Carolina 28801

Station: **401656/13882, CHATTANOOGA LOVELL AP,
Tennessee**

Elev. 689 ft. above sea level

Lat. 35°02'N, Lon. 85°12'W

Date	Temperature (° F)														Precipitation (inches)									
Elem->	MMXT	MMNT	MNTM	DPNT	HTDD	CLDD	EMXT		EMNP		DT90	DX32	DT32	DT00	TPCP	DPNP	EMXP		TSNW	MXSD		DP01	DP	
2004 Month	Mean Max.	Mean Min.	Mean	Depart. from Normal	Heating Degree Days	Cooling Degree Days	Highest	High Date	Lowest	Low Date	Number of Days				Total	Depart. from Normal	Greatest Observed		Snow, Sleet			Number		
											Max ≥90°	Max ≤32°	Min ≤32°	Min ≤0°			Day	Date	Total Fall	Max Depth	Max Date	≥.10	≥.	
1	49.8	29.7	39.8	0.4	777	2	71	3	17	7	0	0	23	0	3.60	-1.80	2.10	25	0.0T	0T	10	5		
2	51.0	33.5	42.3	-1.1	655	0	65	19	22	1	0	0	12	0	4.88	0.03	3.11	6	0.4	0T	16	6		
3	67.5	44.0	55.8	4.4	284	6	83	28	28	23	0	0	4	0	4.36	-1.83	1.62	6	0.0	0		7		
4	72.6	47.7	60.2	0.6	180	40	86	24	37	15	0	0	0	0	1.93	-2.30	0.74	12	0.0T	0T	11	6		
5	82.7	61.0	71.9	4.2	34	255	90	30	39	4	2	0	0	0	3.92	-0.36	1.09	2	0.0	0		7		
6	84.5	67.7	76.1	0.7	0	338	95	12	58	5	4	0	0	0	4.16	0.17	0.89	15	0.0	0		9		
7	87.7	68.5	78.1	-1.5	0	414	94	24	63	19	8	0	0	0	7.47	2.74	2.34	31	0.0	0		9		
8	85.4	66.2	75.8	-2.7	0	342	92	4	54	14	7	0	0	0	2.74	-0.85	1.03	20	0.0	0		5		
9	81.4	62.9	72.2	0.1	2	223	90	6	51	21	1	0	0	0	8.28	3.97	5.24	16	0.0	0		5		
10	75.2	56.7	66.0	5.6	44	80	83	2	44	17	0	0	0	0	4.62	1.36	2.17	19	0.0	0		7		
11	63.2	45.6	54.4	4.1	321	10	80	1	31	26	0	0	2	0	7.61	2.73	2.39	24	0.0	0		11		
12	52.4	31.2	41.8	-0.6	713	0	72	7	16	20	0	1	19	0	6.60	1.79	3.69	6	0.0T	0T	21	6		
Annual	71.1	51.2	61.2	1.2	3010	1710	95	Jun	16	Dec	22	1	60	0	60.17	5.65	5.24	Sep	0.4	0	Dec	83		

Notes

(blank) Not reported.

+ Occurred on one or more previous dates during the month. The date in the Date field is the last day of occurrence. Used through December 1983 only.

A Accumulated amount. This value is a total that may include data from a previous month or months or year (for annual value).

B Adjusted Total. Monthly value totals based on proportional available data across the entire month.

E An estimated monthly or annual total.

X Monthly means or totals based on incomplete time series. 1 to 9 days are missing. Annual means or totals include one or more months which had 1 to 9 days that were missing.

M Used to indicate data element missing.

T Trace of precipitation, snowfall, or snowdepth. The precipitation data value will = zero.

Elem- Element Types are included to provide cross-reference for users of the NCDC CDO System.

Station Station is identified by: CoopID/WBAN, Station Name, State.

S Precipitation amount is continuing to be accumulated. Total will be included in a subsequent monthly or yearly value. Example: Days 1-20 had 1.35 inches of precipitation, then a period of accumulation began. The element TPCP would then be 00135S and the total accumulated amount value appears in a subsequent monthly value. If TPCP = "M" there was no precipitation measured during the month. Flag is set to "S" and the total accumulated amount appears in a subsequent monthly value.

Dynamically generated Wed Jul 30 18:47:16 EDT 2008 via <http://cdo.ncdc.noaa.gov/ancsum/ACS>

Data provided from the NCDC CDO System

Additional documentation can be found at <http://www5.ncdc.noaa.gov/cdo/3220doc.txt>

QUORUM HOTEL TAMPA 700 N. Westshore Blvd., Tampa FL 33609 Phone: 813 269 8200 | Reservations 1 877 4 QUORUM

Destination | Getting Around | Photo Gallery | Contact Us



QUORUM
HOTEL - TAMPA

THE BUSINESS RESORT™

RESERVATIONS

ACCOMMODATIONS

SPECIALS & PACKAGES

ABOUT QUORUM TAMPA

SERVICES & AMENITIES

MEETINGS

SPECIAL OCCASIONS

BLUE WATER GRILL

RETURN REWARDS

Web Value Rate
Best Rate Guarantee

Check Availability

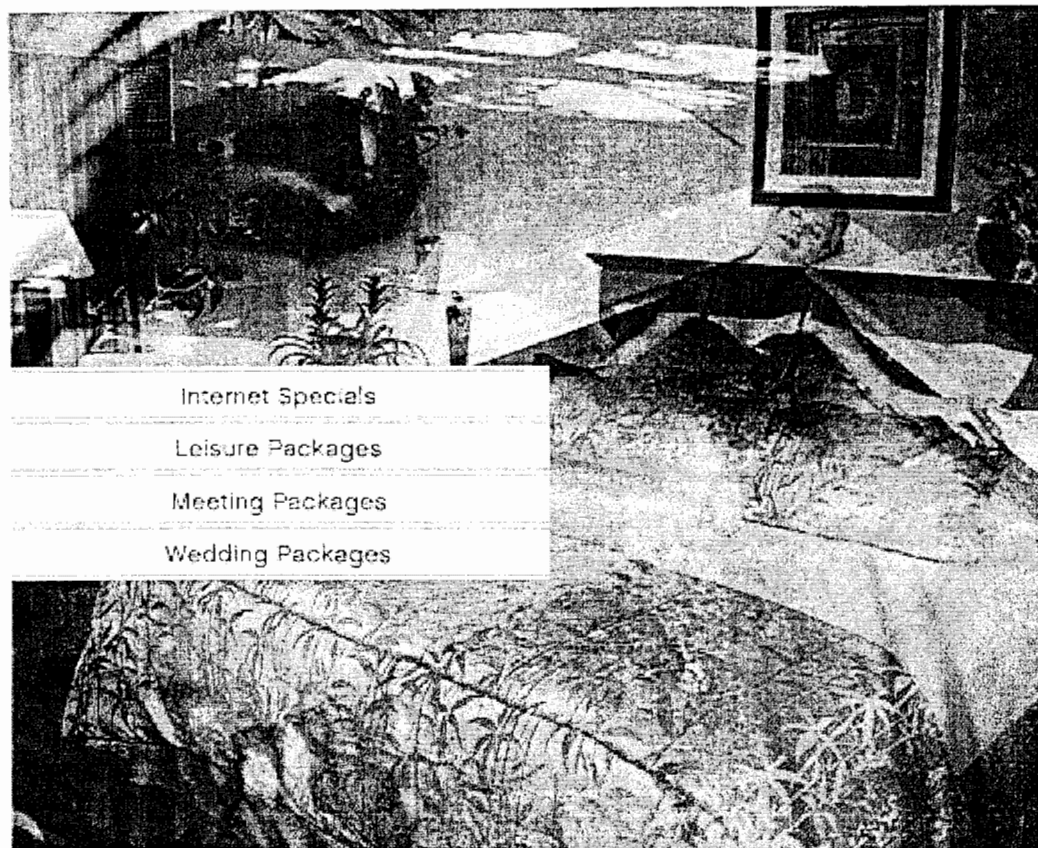
Check-in Date

JUL 30 2008

Nights Adults Children

1 1 0

CHECK RATES



Internet Specials

Leisure Packages

Meeting Packages

Wedding Packages

Family Summer
Sensation Package

BOOK NOW

Tampa Events
Calendar

CLICK HERE

Email Signup

Learn about exclusive offers!

Email Address : Enter E-Mail Address

SUBMIT

Discover heartwarming ambience and distinctive personal service at the Quorum Westshore, our exceptionally located Tampa hotel

The Premier Setting For Tampa Hotels...

Discover heartwarming ambience and distinctive personal

service at the Quorum Westshore, our exceptionally located Tampa hotel. Sit back and enjoy our all-new Blue Water

Grill restaurant and bar - complete with "seating cabanas," appointed with pillows, faux shades, and natural teak wood - creating a romantic feel that recalls Ernest Hemingway's distinguished era. Or relax in our spacious, well-appointed accommodations. Whether you're traveling for business or

leisure, you're sure to appreciate the unique features of our Tampa Florida hotel, in a convenient

Guests rate the Quorum Hotel
Tampa as one of the
BEST IN TAMPA!
Read what guests are saying!

[CLICK HERE](#)

setting:

- Located in the vibrant Westshore business district of Tampa
- Convenient to upscale shopping, restaurants, and nightlife
- Within minutes of downtown Tampa and St. Petersburg
- Just two miles from Tampa International Airport

[Click here for more about Nearby Tampa Attractions & Businesses.](#)

Deluxe Features At Our Tampa Florida Hotel...

Enjoy select amenities and services at this Tampa Florida hotel, following our recent \$5 million dollar renovation to all guest rooms and public areas. Sip your favorite warm beverage at our new Starbucks Cyber Café while checking your e-mail or browsing the internet. Or take full advantage of our [comprehensive meeting facilities](#). All guests are invited to our manager's reception, featuring complimentary beer, wine, and soft drinks. Sample delicious appetizers while unwinding with a relaxing chair massage. You'll find a variety of features at our Tampa hotel, including:

- Dramatically renovated lobby, featuring distinct decor
- All new Blue Water Grill, full-service restaurant and bar
- New Starbucks Cyber Café, with complimentary Wi-Fi
- Classic Florida design, providing a welcoming environment
- All-new guestroom amenities and personal comforts
- Complimentary, 24-hour airport shuttle service
- Manager's reception, held every Monday through Friday

[Click here for more about our Tampa Hotel Features & Lodging Services.](#)

Discover the luxurious accommodations that make us the premier choice among Tampa hotels. For accommodations that provide all of the comforts and conveniences of home - and a little extra indulgence - choose the Quorum Westshore. Book your reservations online today for our **[Best Rate Guarantee](#)**.

[Click here for our Tampa Hotel Packages & Specials.](#)



Top notch

"The experience has been wonderful at the hotel. Not a bad thing to say. Debra, Brandon and Ann have been an absolute pleasure to work with. Being in the meeting planning business for years and I have to say the Quorum Hotel and their staff are top notch. Everyone at the meeting also commented on how great things were. Food was great!"

- Cheryl D.

[Home](#) | [Reservations](#) | [Accommodations](#) | [Specials & Packages](#) | [About Quorum Tampa](#) | [Services & Amenities](#) | [Meetings](#) | [Special Occasions](#) | [Blue Water Grill](#) | [Return Rewards](#) | [Photo Gallery](#) | [Destination](#) | [Getting Around](#)
[Press Room](#) | [Contact Us](#) | [Employment](#) | [Privacy Policy](#)

Copyright © 2008 **QUORUM HOTEL TAMPA**. 700 N. Westshore Blvd., Tampa FL, 33609. All rights reserved.

Phone: 813-289-8200 Guest Fax: 813-227-4466 Sales Fax: 813-287-8275

Toll Free number for reservations: 1-877-4-QUORUM

Hospitality Internet Marketing by TIG Global

Phil Stefani
SIGNATURE RESTAURANTS

Restaurants

Catering & Events

Private Dining

What's Happening



EMPLOYMENT
GIFT CERTIFICATES
TOURS
RESERVATIONS
MENUS
ABOUT US
SITE MAP
SAUCES & PRODUCTS



Phil Stefani's 437 Rush

437 N. Rush St.
Chicago, IL 60611
(312) 222-0101

RESERVE NOW



Phil's Stefani's 437 Rush is the latest Phil Stefani Signature Restaurant. Located at 437 N. Rush St. the new location inhabits the former Riccardo's restaurant space at the corner of Rush and Hubbard Streets. 437 Rush truly echoes the feel of a classic Italian steakhouse. The design's intent, by architect Randy Pruyn, was not to recreate Riccardo's, but to bring back the spirit of when the restaurant was in its prime.

The restaurant shines through the use of rich mahogany colored flooring and wainscots, black and white tiled floors, stainless steel railings and ribbed glass partitions. The décor package highlights the neighborhood's strong newspaper and advertising ties. The finale is the energetic mural that hangs above the original Riccardo's bar. The main dining room features items including prime steaks and chops, succulent lobster tails and enticing pasta specialties.

For preferred seating call: 312-222-0101.

Take the [Virtual Dining Room Tour](#).

Take the [Virtual Bar Tour](#).

Menus

437 Restaurant Menus

To view a menu, click on one of the links below:

PICTURE GALLERY (Click for larger image.)



Dining Room



Bar



Private Dining



Newsroom



437 Exterior

- [437 Daily Drink Special](#)
- [437 Signature Cocktails](#)
- [437 Bar Bites Menu](#)
- [437 Lunch Menu](#)
- [437 Dinner Menu](#)
- [437 Private Dining Menus](#)

You will need to have the Adobe Acrobat Reader program in order to view and print the menus. To download and install a copy of this program click on the icon below.



or [click here](#).

Phil Stefani's 437 Rush Facts

ADDRESS: 437 N. Rush Street, Chicago IL 60611 (former site of Riccardo's)

PHONE: 312-222-0101

HOURS OF OPERATION:

Lunch: Monday - Friday, 11am - 4pm

Dinner: Monday - Thursday 5pm-10pm / Friday & Saturday 5pm-11pm / Sunday - Closed

PRIVATE DINING CONTACT: Michael Dyb - call 312-222-0101 or send an email to mdyb@stefanigroup.com

EXECUTIVE CHEF: Federico Comacchio

CUISINE: Italian Steakhouse

RESERVATIONS: Strongly Recommended

CAPACITY: 400

PRIVATE DINING FACILITIES:

Accommodate 20 to 200

PARKING: Valet Parking

CREDIT CARDS: All Major

HANDICAP ACCESS: Yes

SMOKING: No smoking allowed

RESTAURANTS

[Tuscany](#) | [Tuscany Cafe](#) | [Poplar Creek Country Club](#) | [437 Rush](#)
[Harborside International](#) | [Tavern on Rush](#) | [Riva Restaurant](#)
[Riva Naperville](#) | [Crystal Garden](#) | [Beer Garden](#) | [Castaways](#)

OTHER CONTENT

[Catering & Events](#) | [Private Dining](#) | [Virtual Tours](#)
[Mail List Sign-Up](#) | [Links](#) | [Company History](#) | [Locations](#)
[Contact Us](#) | [Employment](#) | [Gift Certificates](#) | [Home Page](#)

Web: www.stefanirestaurants.com

E-Mail: info@stefanirestaurants.com

Site managed by: Adam King

© 2008 Phil Stefani Signature Restaurants



CALL US TODAY: 1-800-310-RIDE

[home](#)[reservations](#)[billing](#)[services](#)[forms](#)[sign in](#)[Open an Account!](#)[Customer Service](#)[Travel Tips](#)[BOOK A CAR](#)[FLIGHT STATUS](#)[QUICK RECEIPTS](#)[FARES](#)[TRAVEL ALERTS](#)

New York, NY

[Get the 10 day forecast](#)
[Airport Delays](#)
[Sporting Events](#)
[Pollen Reports](#)
**83 °F**

Cloudy

Feels Like: 85°F

Humidity: 56%

Wind: S at 12 mph

Enter city/zip

[Book a vacation rental](#)**Arrow Connect** *Coming Soon*

Arrow Transportation is New York City's premier chauffeured services company, providing ground transportation services for business travel, personal travel, meetings and events. Whether you need a car in New York or San Francisco, you can be assured that Arrow will take you wherever you need to go in one of our late model town cars, limos, SUVs, and vans. Please browse through our web site to learn more on how we may fulfill your ground transportation needs today!

Search for (e.g. taco, salon, Max's)

Near (Address, Neighborhood, City, State or Zip)
Philadelphia, Pa

M

Lucky Strike Lanes

3 star rating based on 30 reviews Rating Details »

Categories: American (New), Lounges, Bowling [Edit]

Neighborhoods: Penn Center, Market East, Avenue of the Arts South

1336 Chestnut St

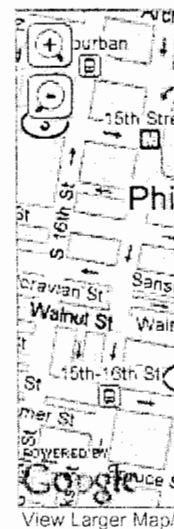
Philadelphia, PA 19107

(215) 545-2471

www.bowlluckystrike.com



Add Photos



View Larger Map

Price Range: \$\$

Good for Groups: Yes

Delivers: No

Outdoor Seating: No

Happy Hour: Yes

Accepts Credit Cards: Yes

Good for Kids: No

Waiter Service: Yes

Good for: Late Night

Alcohol: Full Bar

Attire: Casual

Takes Reservations: Yes

Wheelchair Accessible: Yes

Best Nights: Thu, Fri, Sat

Smoking: No

Edit Business Info

Is this your business?

First to Review Caitlin C.

Print version

Browse Nearby

Restaurants | Nig

30 Reviews for Lucky Strike Lanes

Search Reviews

Sort by: Recent + Votes | Time | Rating

2
16Lauren H.
Philadelphia, PA

4 star rating 07/06/2008

I've never been to a bowling alley like this one before. Here, you dress up like you're going over to old city to bar hop the night away. They serve food a step above bar food, salads and light foods like that. There is a full bar that makes decent drinks, I had a lemon amaretto and a cranberry vodka, and both were strong. Before 9pm, anyone can come and bowl, but after 9, it's 21+.

People thought this was: Useful (4) Cool (3)

Bookmark

Send to a Friend

Link to This Review

Elite '08
19
108Karen F.
Philadelphia, PA

3 star rating 07/25/2008

We went here - believe it or not- for our neighbor'd 5 year old daughter's birthday party. Um - OK - a 5 year old. FIVE.

F.I.V.E.

OK. We brought our 3 year old. There were about 14 kids from ages 3 - 12 and their assorted parents. It was a Saturday during the afternoon.

This place is really neat - but it's more like a club-slash-bowling alley.

It is NOT where I would have a kids party - but surprisingly it all worked. The adults had drinks and lots of fried-bad-for-you apps.

The kids ate a grocery-store cake that they brought and Lucky Strikes made little cheese pizzas for each kid.

People Who Visited

North
000
Neigh
Liber
CateStrike
000
Neigh
CateSolef
000
Neigh
CateJones
000
Neigh
CateThe A
000
Neigh
Cate

Related Lists

Phila
I spei

THE



THE RITZ-CARLTON, HALF MOON BAY

[View all locations](#)

One Miramontes Point Road, Half Moon Bay, California 94019 USA **Phone:** (650) 712-7000 **Fax:** (650) 712-7831

[Reservations & Packages](#)

[Hotel Information](#)

[Guest Rooms & Suites](#)

[Dining](#)

[Spa](#)

[Golf](#)

[Destination Information](#)

[Contact Hotel](#)

[Meetings](#)

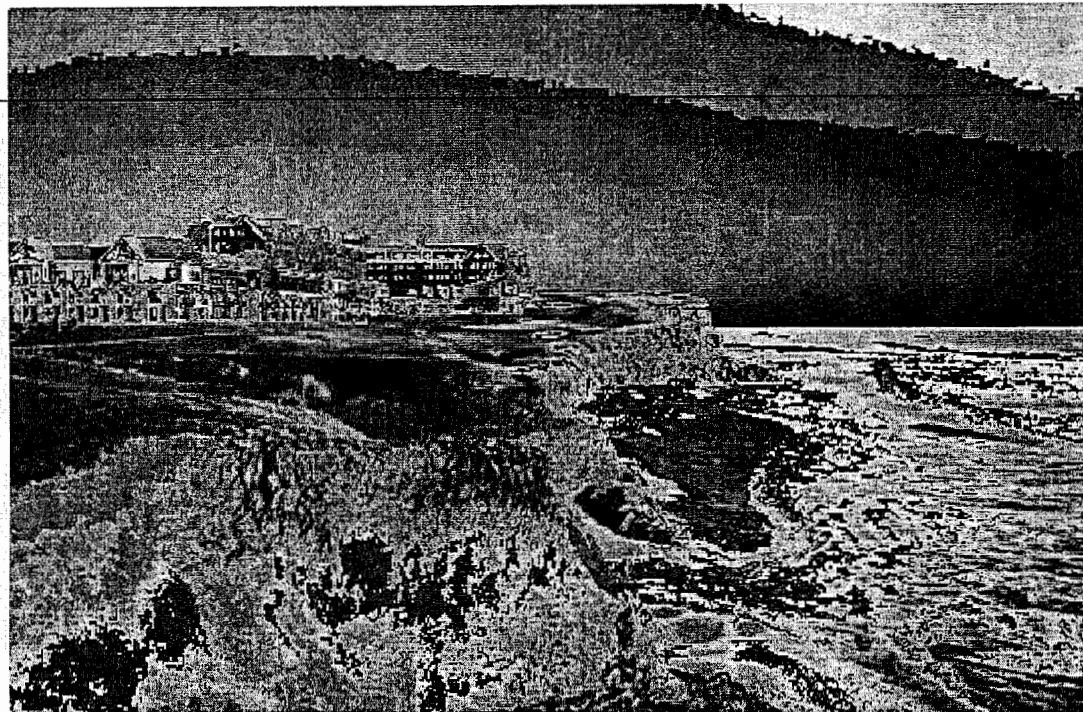
[Weddings & Social Celebrations](#)

PHOTO TOUR

Local time: **1:05 PM**

Local temp: **69°F/20°C** ☀

[Forecast](#)



The Ritz-Carlton, Half Moon Bay sits atop a bluff overlooking the Pacific Ocean

[Corporate Site](#) [Careers](#) [Contact Us](#) [Site Map](#)

© 2008 The Ritz-Carlton Company, L.L.C. All rights reserved.
[Internet Privacy Statement](#) | [Terms of Use](#)



Lakeview
golf resort & spa

[Packages & Specials](#) | [Gift Certificates](#) | [Weather](#) | [Photo Gallery](#) | [Contact Us](#)

1-800-624-8300

[Lodging & Reservations](#)

[Golf](#)

[Conferences & Meetings](#)

[Weddings & Social Events](#)

[Dining & Entertainment](#)

[Fitness Center](#)

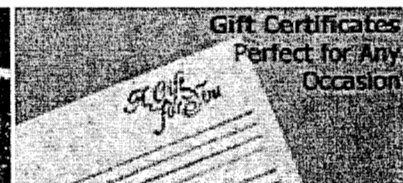
[Spa Roma](#)

[Recreation](#)

Welcome. The view keeps getting better. A Million Times Better!

Lakeview Resort continues its commitment to customer excellence with the completion of our \$1,000,000 guest room renovations.

If you think that a great golf resort has to be expensive, prepare for a change of view. At Lakeview Golf Resort & Spa, you don't have to spend a lot to be treated like a V.I.P. And that's why we're a favorite destination for vacationers and meeting planners alike. Visit us in the beautiful foothills of the Allegheny Mountains, and let the view change you.



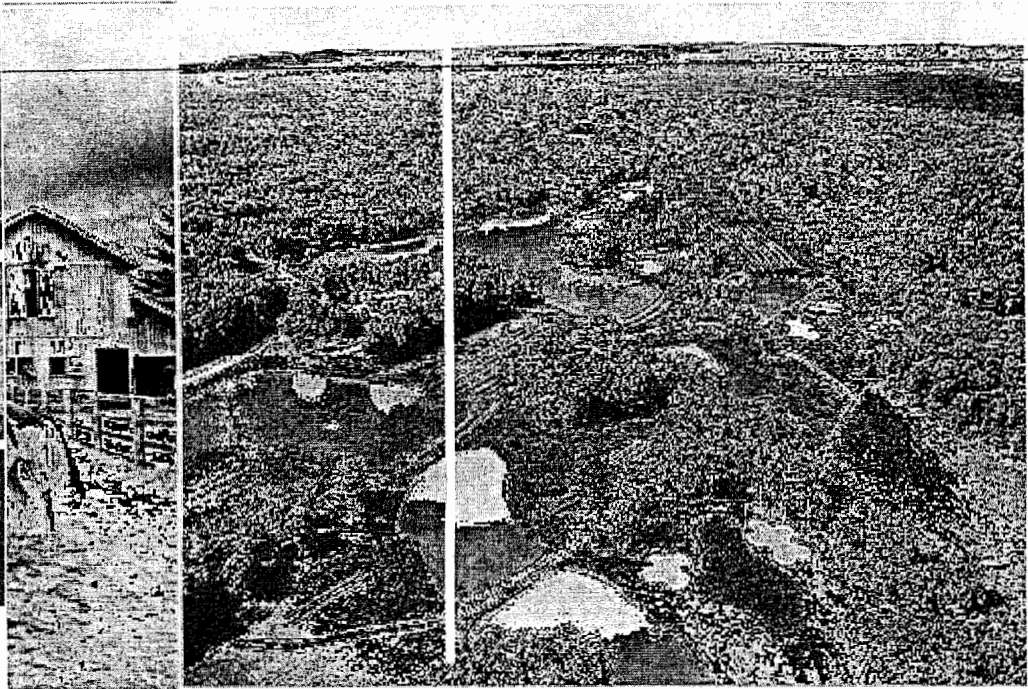
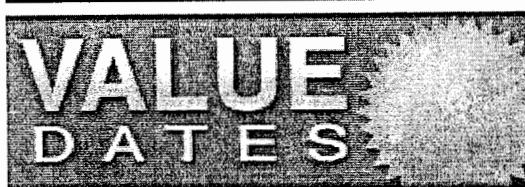
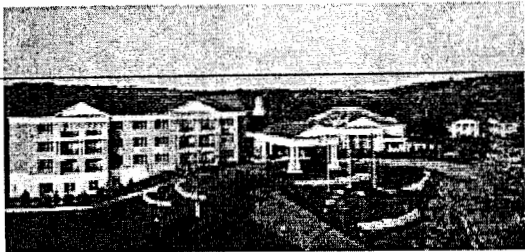
[Mailing List Signup](#) | [About Lakeview](#) | [Careers](#) | [Directions](#)

Book Online!	Check In:			Check Out:			Go

HOME CONTACT US MAPQUEST INFO@GLADESPRINGS 1-866-562-8054



LODGING DINING SPA RESTAURANT ACTIVITIES GOLF MEETINGS & EVENTS



[Availability / Reservations](#)

[Packages](#)

[Calendar of Events](#)

[Directions](#)

[Local Weather and Forecast](#)

[Property Map](#)

[Ski Groups](#)

[Golf & Country Club Membership](#)

[Winterplace Ski Resort](#)

[Real Estate](#)

[Let Us Know What You Think](#)



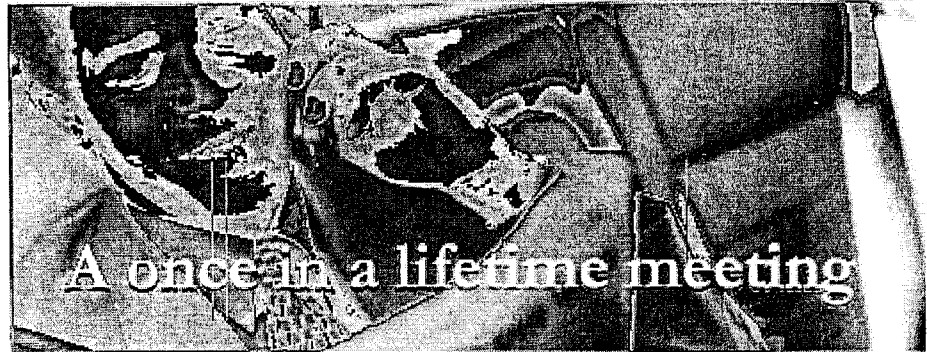
Get yourself to The Resort at Glade Springs and prepare for some fun in the mountains of Virginia. Vacations at Glade Springs feature some of the world's finest golf courses, hiking, biking, skiing and more. When you're not conquering the mountains turn your attention to whitewater rafting on the New River's class V rapids, where our world-class guides will intr to an exhilarating journey down North America's oldest river. After an action packed day, rest in the lodging of your choice: two-room suite, stand alone villa, multi bedroom lodge with kitchen, dining area and parlor. We offer flexible vacation lodging that is both affordable and luxurious.

Call 24/7 Customer Service

314-989-1500

Chauffeured Services with Premium Sedans, Limousines, Vans & Buses

OVERVIEW AIRPORT CORPORATE WEDDINGS PACKAGES RATES FLEET



Ask Anybody - Our Reputation Speaks For Itself

We are known for not only providing the BEST service, but also for our reliability, honesty, & integrity, especially when it comes to having No Extra Charges with our **"No Surprise Pricing."** All of this is coupled with some of the lowest prices in town.

We have one of the largest full service facilities housing one of the largest & most diverse late model fleets in St. Louis.

At this facility:

- We have our own car wash with vehicle detailers onsite 7 days a week.
 - *Our Vehicles Will Look Their BEST For You*
- A full service repair facility with mechanics on site 6 days a week.
 - *Preventative Maintenance Insures Reliability*
- A Staff D.O.T. Safety Specialist is on site inspecting our vehicles on a daily basis.
 - *Your Safety, Is Our First Priority.*
- Live dispatch & operators 24 hours a day 7 days a

[Click here to see our entire fleet](#)

*Public Utility Accounting:
Theory and Application*

by

James E. Suelflow

1973

MSU Public Utilities Studies

Institute of Public Utilities

Division of Research

Graduate School of Business Administration

Michigan State University

ciate them on an item-by-item basis. It is doubtful that such reasoning is as valid today, since methods and tools are available which allow the utility to do this. Electronic data processing equipment can perform the necessary calculations required for unit depreciation with very little effort. The question that must be asked, however, is how much more accurate is unit depreciation versus a group method. The point should be clear: If accuracy is not sacrificed under a group method and may, in fact, be greater than under a single unit method, the use of group depreciation is not only proper and expedient, but also almost a requirement. Whether or not group depreciation is used is certainly a management decision. The utility manager, however, must be aware of the shortcomings as well as the advantages of the method to ensure that within the legal confines and uniform accounting systems prescribed no more or less than the cost of the assets should be reflected through depreciation accounting.

Accounting for Depreciation

The procedure of accounting for depreciation involves a systematic converting of unexpired asset costs into periodic expenses. Expressed another way, it is the appropriate matching of revenues with expenses—depreciation expense representing the extinguishing of an asset's useful life to produce revenues for the particular accounting period. Accounting for depreciation expense recognizes that: (1) the cost of the asset less salvage value is the amount to be systematically allocated as depreciation; (2) no more nor no less than the cost of the asset is depreciable; and (3) by considering this cost only depreciation will keep the initial investment of nominal dollars intact. The asset remains on the utility's accounting records until it is either retired or replaced, and only then are the accounting records relieved of a particular item.

The journal entries involved in the life of an asset are presented below.

- (1) To record the asset placed into utility service:

Dr. Electric Plant in Service

Cr. Accounts Payable, Cash, Construction Work in Process, or Materials and Supplies

§ 1.01 Public Utilities Defined

The major portion of U.S. commercial business is conducted by shareholder-owned corporations operating for profit-motivated purposes. Three basic categories of shareholder-owned corporations conduct the majority of this business:

- (1) private corporations engaged in manufacturing and related wholesale and retail operations;
- (2) financial institutions engaged basically in banking and insurance activities; and
- (3) public service corporations or public utilities.

There have been many attempts to define a public utility. Essentially, a public utility is an organization that has been designated by law as a business affected with a significant public interest, *and* that also possesses all of the following characteristics:

- (1) The business is essentially free from direct competition, i.e., it operates in a monopolistic environment.
- (2) The business is required by law to charge rates for its services that are reasonable and not unjustly discriminatory.
- (3) The business is allowed to earn (but not guaranteed) a "reasonable" profit.
- (4) The business is obligated to provide adequate service to its customers, on demand.

The above concepts are discussed in detail later in this chapter.

§ 1.02 Development of the Utility Industry

The historical development of the public utility industry is not clearly delineated. What a public utility is has long been the subject of debate. This issue has been further clouded by the fact that society has, at different times, changed its perception of the industries that public utility systems comprise. The historical development of public utilities is also complicated by the fact that technological development of the various utility services began at different times and progressed at different rates.

Two noted commentators, however, identify five basic stages through which most utilities have at least partially passed.¹ These stages are:

- (1) the promotional stage;
- (2) the competitive stage;

¹ Adapted from M Farris and R Sampson, *Public Utilities: Regulation, Management, and Ownership* 9-16 (Houghton Mifflin 1973).

CHAPTER 7

Test Period Cost of Service

SYNOPSIS

- § 7.01 Introduction
 - § 7.02 Test Year Function
 - § 7.03 Selection of the Test Year
 - § 7.04 Average and Year-End Measures
 - § 7.05 Pro Forma Adjustments to the Test Year Data
 - § 7.06 Test Period Function
 - [1] Setting Rates for Prospective Use
 - § 7.07 Test Period Data
 - § 7.08 Cost of Service
 - [1] Operations and Maintenance Expenses
 - [2] Depreciation Expenses
 - [3] Tax Expenses
 - [4] Capital Costs (Rate of Return)
 - [5] Summary
-

§ 7.01 Introduction

In the traditional cost of service approach to ratemaking, it has been generally assumed that utilities have a right to charge rates that will provide a reasonable opportunity to recover costs prudently incurred in the process of providing utility services. There is little challenge to the position that recovery of these costs is justified, and that the objective of the ratemaking process is to produce rates that will do

so. The primary difficulty in meeting this objective is in determining the levels of costs to be incurred and the rate levels required to maintain cost recovery.

The approach most often used by regulators has been to measure the total costs incurred in conducting operations over a twelve-month period (i.e., the test period cost of service) and to fix rates that will produce revenues to match costs of that period. Two distinct concepts are embedded in the term "test period cost of service." "Test period" addresses the period of time used to determine ongoing rate level requirements; a period deemed representative (for the levels of investment, revenues, operating costs, and capital costs) of the future period of time in which rates are to be in use. "Cost of service" addresses the total costs incurred in providing service during the test period and measures the costs to be recovered through rates at the sales levels of the test period.

Since the test period is the basis for setting rates, the development of adequate test period data is obviously crucial to the outcome of the regulatory process. If the data do not accurately express operating conditions for the period in which rates are applied to recover costs, the rates will not function as intended. If rates were retrospective and past costs were recoverable through current charges, the process would be somewhat less controversial. The known costs for the past period would be determined from actual operating results and any excesses or deficiencies in rates charged would be adjusted accordingly. This is rarely the case, however. The normal approach measures test period costs, which may be adjusted historic costs or forecasted costs, assumes such costs to be representative of costs to be incurred in the future, and designs rates for prospective use to recover costs at the levels anticipated. Because of the use of test period operations as a measure of future operations to establish future rates, the need to focus on the quality of the test period data cannot be overemphasized.

§ 7.02 Test Year Function

Although the terms *test year* and *test period* are most often used interchangeably, a useful distinction may be made between the two in properly focusing on the role of the test period in the rate-making process. The *test year* is a measure of the operations and investment from some specified twelve-month period. The *test period* is a measure of, or is representative of, conditions during the period of new rates.

A twelve-month period (past, present, or future) is selected as a test year and is then restated, to the extent necessary (or permitted), to produce the test *period* data considered reflective of conditions during the period in which rates are to be in effect. The test year provides the data foundation upon which the rate case is built. It is the starting point for developing investment and operating results that are presumed to be representative of future conditions so that future rate needs may be reasonably estimated. The test year is the raw material, and the test *period* is the finished product.

The two sets of data may express the same time period (and may be identical in value), or they may express different time periods (with the test year restated to create test period results). Furthermore, while the test year may express data from the past, present, or future, *the test period is always a forecast* when rates are being set thereon for prospective use. This point was eloquently expressed by Professor Alfred Kahn in a 1975 article.¹ Dr. Kahn, at the time serving as Chairman of the New York Public Service Commission, observed:

"No tradition in public utility regulation is more sanctified than the use of an historic test period. Since the purpose of the exercise is to set rates for the future, the parties try in various ways to adjust the 'test year' experience for later, 'known changes'. . . ."

He further stated:

"The system works moderately well, as long as the period during which the new rates are in effect are not dramatically different from the test period. Double digit inflation has obviously changed all that."

He concluded:

"The fact is . . . regulatory commissions have always been in the business of projecting, whether they knew it or not. When they used historic test year statistics, fully verifiable and verified, graven in stone, as the basis of future rates, they were in fact projecting. They were assuming that the future would be similar to the past. It is no more speculative, then, to make the best possible estimate of future costs when setting future rates; and honesty compels it."

As stated, rates are normally set prospectively and are normally based on test period data that are presumed to be representative of

¹ A Kahn, "Between Theory and Practice: Reflections of a Neophyte Public Utility Regulator," *Public Utilities Fortnightly* 29 (Jan 2, 1975).

prospective conditions when rates will be in use. Whether using pure historic data with actual events as reported or pure forecast data using the best available assumptions, as so well expressed by Dr. Kahn, the test period necessarily assumes the posture of a projection of future events when it is used to set future rates.

For many years, regulators relied primarily upon historic test year data with pro forma adjustments to recognize known and measurable changes in the events as recorded. In recent years, a number of state and federal regulators have acknowledged the deficiencies inherent in historic data and have adopted the projected test year approach to anticipate rapidly changing conditions more effectively and to accommodate the rate-making objective of setting prospective rates that will adequately cover prospective costs. They have recognized that test period data must be structured to accommodate the future, because the future will not develop to accommodate test period assumptions.

§ 7.03 Selection of the Test Year

Test period conditions are typically based upon one of the following test year selections:

- (1) historic data;
- (2) current data (partial historic and partial projected); or
- (3) projected data.

The selection of the timing of the test year may be the most significant single factor in the rate-making process. The more outdated the test year levels of operations, the more critical is the need for significant restatement to produce representative levels of future conditions. As the test year selection moves from historic data toward projected data, the restatement problem moderates and the level of pro forma adjustments to restate the test year is reduced.

The historic test year approach may function reasonably well when economic conditions are stable and did so under conditions during the 1950s and 1960s. In recent years, however, it has consistently proven to be inadequate. Under the inflationary conditions of the 1970s, with the impact of rapidly changing costs of providing service, historic data became increasingly more difficult to utilize effectively. With declining inflation in the 1980s and 1990s, the problem has moderated, but still exists.

The idea that historic data express factual conditions has sometimes led to the conclusion that those data are the most reliable data available for estimating future conditions. The factual nature of the events as recorded has apparently imbued the data with a degree of soundness and quality that appears to exceed a forecast approach for test year purposes. When conditions are in a state of change, historic results are likely to be the most unreliable of the sources of test period data as a basis for measuring future rate needs. While projected data, using standard forecasting techniques, may miss the mark, historic data, with a patchwork of updating, will surely miss the mark. As imprecise as forecasting may be, projected test year data based on reasonable forecasts should consistently come closer to expressing future conditions than will historic data as traditionally used.

§ 7.04 Average and Year-End Measures

When using forecasted data, most often the rate base investment is averaged over a 12-month period and related to the results of operations for the period. This averaging concept produces a matching of the rate base investment with the revenues generated by the investment and the costs incurred in the process. If the period forecasted coincides with the period in which the new rates will be in effect, the matching of investment levels to operating results should produce the earnings levels authorized. Any deviation should be solely due to the inability to forecast with perfect foresight.

It is worth repeating, however, that the test period, as a measure of future conditions, is by nature a forecast, whether based primarily on past events or on forecasts. Reasonable assumptions should produce more accurate and more useful results than will the use of historic data with limited adjustments.

The average outstanding investment and the operating results of the test year are also most often used in conjunction with a "current" test year (i.e., part historic, part forecast) in order to match the outstanding investment with the operations related thereto. In most instances, however, the rates do not begin until after the test year's end even though it is based partly on forecasted data. As a result, unless the current test year data are adjusted to recognize changing conditions, the rates will not be properly established. When conditions are rapidly changing, substantial pro forma adjustments (i.e., the restatement of test year events or conditions to measure future conditions more accurately) to current test year operating results may be required.

Average results for the period are also measured in a number of jurisdictions when an historic test year is used. Using average historic data, coupled with several months of delay in processing a case and establishing new rates, can severely undermine the adequacy of rates produced in the process. For example, a utility may file its rate case in the spring of 19X1, using 19X0 as a test year with rates going in effect in 19X2. The 19X0 average costs data will be eighteen months old (i.e., 19X0 average costs represent a midpoint, or June/July cost levels) when initiated. By the time they have been used for 12 months, they are 30 months old. This results in two years of change between the midpoint of the test year (19X0) and the midpoint of the year of new rates (19X2). The traditional pro forma adjustments have not been sufficient to span this gap, and in periods of rising costs, utilities' earnings have repeatedly fallen below targeted levels.

Some regulatory commissions using historic data have reduced the impact of this lag by expediting the hearing process and the implementation of new rates. Others have permitted interim rate relief pending the final decision on new rates (and although this does not assist in setting adequate final rates, it does minimize losses experienced during a lengthy hearing process). In fairness to many commissions, controlling statutes may inhibit the shift to forecasted data or the ability to allow interim rates. In other situations, commissions simply have not recognized the basic merits of these positions.

Many commissions, tied to historic data by statute or by an unwillingness to accept forecasted data, have adopted historic end-of-year test years. The year-end approach has been applied in two major forms. First, some commissions have used a year-end rate base, year-end capital cost data, and annualized revenues and costs at a year-end level. This approach has the effect of moving the test year forward by a full six months (i.e., the average historic test year approach effectively uses midperiod levels, while the year-end data pushes these levels forward to year-end—a six-month update). The time gap problem is moderated, but gaps of 12 to 18 months may still exist between the test period and the time that new rates go into effect.

Other commissions, also committed to historic test year data, have gone a step further. They have coupled end-of-period investment data (i.e., the year-end rate base and capital costs) with the operating results (revenues and costs) of the preceding 12 months. This "mismatch" has frequently been justified as necessary to overcome the problem

of increased levels of earnings deterioration (i.e., attrition) between the historic test year and the subsequent year of rate use.

An example of the potential impact of the various methods is given in simplified form as follows:

	Test Year Approach			
	Average	Year-End	Current	Forecast
Rate base	\$1,600	\$1,700	\$1,800	\$2,000
Net operating income as measured for rate purposes	\$ 120	\$ 125	\$ 130	\$ 140
Rate of return:				
Realized	7.5%	7.4%	7.2%	7.0%
Required	10.0%	10.1%	10.2%	10.3
Deficiency	2.5%	2.7%	3.0%	3.3%

The example illustrates a common condition in which plant is increasing at a faster pace than operating income, thereby creating a pattern of declining rates of return. At the same time, new capital costs are above embedded capital cost levels, and the required rate of return increases. This condition, discussed at length in the chapter on attrition (Chapter 8), obviously should be considered, because rates set to remedy the shortfall indicated by the 2.5 percent deficiency in the historic average measure will not suffice to produce an adequate return under prospective conditions.

§ 7.05 Pro Forma Adjustments to the Test Year Data

Under conditions of sustained periods of inflation, especially in an expanding system, the use of a test year, other than one based on fully forecasted data, will create a critical need for pro forma adjustments. Even in stable conditions, historic data will likely require restatement for actual occurrences not expected to recur or for events that are expected to occur but did not exist (in whole or in part) in the test year. Further, there may be events that did occur and are expected to continue but the related costs are not deemed the customers' responsibility. The pro forma adjustments that are normally utilized fit into one of the following categories:

- (1) normalizing adjustments (to restate the period data for abnormal conditions);
- (2) annualizing adjustments (to extend over the period, or to eliminate from the period, events that had partial period effects and are either recurring or have terminated);
- (3) out-of-period adjustments (to assign properly events of the period to the period);
- (4) attritional adjustments (to recognize changing conditions, including annualizing of conditions, updating of conditions, or adjusting for any known and measurable changes in events or conditions that will affect future cost or revenue levels); or
- (5) reclassified items (to add or remove items for purposes of rate recovery).

Normalization adjustments are usually made to revenues or to expenses to compensate for unusual levels of operations as recorded during the period. The events that lead to normalizing adjustments are often extraordinary and nonrecurring. For example—

- (1) Extreme weather conditions can create abnormal levels of sales and/or costs during the period;
- (2) Normal levels of operations may be delayed or may be accelerated during the period;
- (3) Employee strikes may cause changes in levels of activities; or
- (4) Extended plant outages may create unusual costs.

(Text continued on page 7-9)

Such events, when of an abnormal or nonrecurring nature, require restating the test year to a normal, ongoing level of operation.

One consideration in identifying extraordinary and nonrecurring events that justify normalizing adjustments is whether the event actually has an extraordinary and nonrecurring impact on operations. Many events, if viewed in isolation, might be considered extraordinary or nonrecurring, but if viewed from an overall operating perspective, might be a part of the routine cost of doing business. For example, a car owner may have an unexpected and costly generator failure at one point in the car's lifetime. A battery failure may, however, occur at some other time, or a starter failure may occur, and so on. Any one of these failures may be a one-time, nonrecurring event, but a different one may occur each year. Any one of the specific problems may be nonrecurring but will be replaced by other problems, and the annual cost of operating the car may therefore be normal. It is in this context that the normalizing adjustments should be considered.

Annualizing adjustments recognize that some conditions existing during segments of the period are ongoing and must be spread over the entire period. One common annualizing adjustment is for wage increases that occur during the test year. Since wage costs will be greater on an ongoing basis than as recorded, the adjustment is necessary to improve the prospective status of the test year data. The key ingredient in the annualizing adjustment considerations is the changing level of costs (or revenues) for the same level of operations. If the change expands or reduces operations, the investment/revenue/cost relationships may all change equally and an adjustment may not be needed. For example, a growing system will be adding new investment, new employees, and new sales. The changes related to growth may not require annualization to maintain the interrelationships between investment levels, revenues, and costs.

Out-of-period adjustments are required when an event is recorded in one period but applies to another period. One common out-of-period adjustment is income tax expense which may include prior period tax assessments or rebates from prior periods. When using recorded test year income taxes, any out-of-period amounts in the tax expense accounts should be eliminated.

Attritional adjustments restate conditions as recorded during the test year to levels that may be reasonably anticipated for test period

purposes (i.e., representative of future conditions). Since this category of pro forma adjustments includes any restating of conditions from those recorded to those anticipated, it could include most, probably all, of the annualization adjustments already discussed above. In addition, and sometimes most significantly, this category includes those events that will occur but have not been included in the typical pro forma adjustments to the test year data. The general role of attritional adjustments are of such import that the subject is discussed in detail in Chapter 8.

Attritional adjustments are most limited by the "known and measurable" standard. Many commissions have permitted adjustments for conditions that come into being subsequent to the test year, but only when they are known with an almost absolute finality and measurable by some explicit test year activity. A good example is the contractual obligation for post-test-year wage adjustments. The problem inherent in the explicit selection of adjustments is that many areas of change that could be identified and measured as to their impact are ignored. For example, inflationary conditions will result in higher costs for materials and supplies used in operations, but such changes often are not considered to be known and measurable.

The idea of a known change in the ratemaking framework should not be that the change is in an absolute or unchangeable form, but rather that there is a known condition or a known pattern of change in the operations. While the term "known change" may suggest something in the past, it is generally not so limited by regulators. For example, the rationale for allowing adjustments for prospective wage increases which are under a contractual arrangement is that contractual agreements have a high probability of occurring. The problem of inflation and its impact on a company's various operating costs has just as high a degree of probability as has the wage agreement. In basic character, no difference exists. Regulators "know" that the wages will be increased. They should "know" that various noncontractual areas of costs incurred by the utility will also increase. There is no reason to believe that wage contracts will not be fulfilled, and similarly there may be no reason to believe that inflation patterns are going to change significantly in the time frame used for setting rates. The "known" quality applies equally to activities with contracted price adjustments and those activities faced with general price changes.

In addition, the measurable aspects of most areas of costs are quite similar. The impact of past or prospective wage increases is measured in the test year and adjusted accordingly. Also, various other costs in the test year are adjusted for the impact of the changes that are occurring.

There is a strong similarity between adjusting for the traditional items which are prominent and easily isolated and a variety of other items which are less prominent and less easily isolated, but which have equally adverse effects. Many of the costs that are often excluded from the pro forma adjustments fit properly into the known and measurable criterion.

Reclassified items generally concern activities that are included in operating accounts under the uniform systems of accounts directives but are disallowed for purposes of fixing rates on the premise that the costs do not benefit ratepayers. The most common adjustments include the disallowance of various advertising costs, charitable contributions, and company involvement in civic affairs, which, although designated as operating expenses, are frequently assessed against the equity holders rather than the ratepayers through reclassification adjustments.

§ 7.06 Test Period Function

The test period, by nature and by design, is a surrogate for conditions of the period of rate use and, to repeat, is presumed to be representative of future conditions. Since future conditions must be accommodated, the mechanical approach to developing test year data is significant only in how well it serves to express those conditions. Whether the approach in estimating costs is based upon historic test year data, with adequate adjustments thereto, or upon fully projected test year data, the required rate levels indicated should be the same. If the alternative periods are properly scrutinized and restated to reflect future events, no difference should result.

In practice, the historic test year approach has proven to be inadequate during periods of rapid change. In many instances, the quality of the results using historic data has been severely undermined by the limitations placed on the pro forma adjustments permitted. When the approach is thus hampered, rates will not function as intended due to the unrealistic limitations placed on the

restatement of data by the traditional known and measurable change criterion. If greater flexibility were allowed in pro forma adjustments for reasonably assumed changes in conditions, historic data performance would be substantially improved. Few businesses or governmental agencies would willingly adopt the traditional historic test year approach (with adjustments limited to items traditionally deemed to be known and measurable such as contractual wage adjustments) in planning for subsequent periods.

[1] Setting Rates for Prospective Use

Considerable judgment is involved in looking from the past, through the present, and into the future to set rates for future use. In these circumstances, reasonable parties may disagree; however, the basic framework of ratemaking principles should create little controversy. Some significant points may be summarized as follows:

- (1) Rates are set for the future.
- (2) Rates are based on test period data.
- (3) The test period is presumed to reflect future conditions.
 - (a) The test period is therefore a forecast, whether based upon historic data or projections.
 - (b) In periods of rapid change, historic data may require substantial restatement to produce acceptable results.

§ 7.07 Test Period Data

The significant equation in the test period data is:

$$\text{revenues required} = \text{cost of service incurred.}$$

The revenues are a product of the test period sales or service levels and the rates as applied. Since setting the rate levels is the ultimate step in the ratemaking process, determining the test period sales volume is one of the critical measures in the test period data. When using historic test year data, the sales volumes must be examined for conditions that are not representative of the period. The conditions that may produce recorded sales that are not representative include the following:

- (1) abnormal consumption levels (e.g., extreme weather conditions);

 Print page  Email page  Download PDF
« Previous Release | Next Release »



American Water Appoints Walter Lynch and John Young to New Leadership Roles

VOORHEES, N.J., Jul 28, 2008 (BUSINESS WIRE) -- American Water Works Company, Inc. (NYSE:AWK), the largest investor-owned U.S. water and wastewater utility company, announced today that Walter Lynch has been appointed to the newly created position of president of regulated operations and John Young has been appointed as president of American Water Services, a new entity that will support the company's growth initiatives and service offerings. Young will also continue to serve as president of American Water Works Service Company, providing operating support to all aspects of the business. Both Lynch and Young will report to president and CEO, Don Correll.

"Walter and John are key leaders in this company," said Don Correll, president and CEO of American Water. "These changes were made to continue to strengthen American Water, to support our growth and to drive performance. Walter and John have vast experience in this industry and I have every confidence that through these new positions, they will help this company achieve its full potential."

In his new role, Lynch will be responsible for the successful performance of American Water's 20 regulated states, serving approximately 1,625 communities. All of the state presidents will now report to him. In addition, Lynch will lead the company's two national customer call centers.

As president of American Water Services, Young will work to align the organization's capabilities to support various growth opportunities like the company's recent successes with the Tampa Bay desalination project in Florida and the Lake Pleasant Water Treatment Plant in Arizona.

Young will also continue to lead multiple operational functions, as well as lead the business transformation of the company's information technology effort. This critical effort will ensure the company employs the proper technology to execute its key strategies.

Lynch joined American Water in 2001 and most recently served as the executive vice president of business operations for the company's Eastern Division. The division encompasses eight states stretching from Tennessee to New York and has approximately 2,600 employees. Prior to that, he was president of American Water's Northeast Region. In this role, he oversaw more than 1,000 employees and was responsible for operations that provided more than 2 million people in New Jersey and New York with water and wastewater services. Lynch also served as president of American Water Products and Services Group. In this capacity, he led and developed 10 non-regulated business lines with more than \$500 million in revenue and 1,500 employees. Before joining American Water, he was involved in various start-up and growth organizations in the environmental industry. He also worked for Mobil Oil Corp. A graduate of the U.S. Military Academy at West Point, Lynch holds a Bachelor of Science degree in general engineering and attained the rank of Captain before his departure from the U.S. Army in 1990.

Young joined American Water in 1977 and has held a variety of operations, engineering and executive positions, including chief operating officer, vice president of engineering, vice president of technical services, and vice president of operations and investment performance. He is an active member of several professional organizations, including the Design/Build Institute of America (board member), the American Water Works Association (board member, section chair and Fuller awardee), and the American Society of Civil Engineers. He also serves on the U.S. Environmental Protection Agency's (EPA) National Drinking Water Advisory Council and several EPA working groups. A registered professional engineer in a number of states, Young holds a bachelor's degree in civil engineering from Duke University and a master's in environmental engineering from the University of North Carolina.

About American Water

Founded in 1886, American Water is the largest investor-owned U.S. water and wastewater utility company. With headquarters in Voorhees, N.J., the company employs nearly 7,000 dedicated professionals who provide drinking water, wastewater and other related services to approximately 15.6 million people in 32 states and Ontario, Canada.

SOURCE: American Water Works Company, Inc.

American Water Works Company, Inc.
Maureen Duffy
Director, Communications
856-309-4546
maureen.duffy@amwater.com

Copyright Business Wire 2008

News Provided by COMTEX

[Close window](#) | [Back to top](#)

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file: number 001-34028

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware
 (State or other jurisdiction of
 incorporation or organization)

1025 Laurel Oak Road, Voorhees, NJ
 (Address of principal executive offices)

51-0063696
 (I.R.S. Employer
 Identification No.)

08043
 (Zip Code)

(856) 346-8200
 (Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☐ Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

☐ Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
 Common Stock, \$0.01 par value per share

Outstanding at May 14, 2008
 160,000,000 shares

Table of ContentsTABLE OF CONTENTS

AMERICAN WATER WORKS COMPANY, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2008
INDEX

<u>PART I. FINANCIAL INFORMATION</u>	3
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS	3
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	17
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	29
ITEM 4. CONTROLS AND PROCEDURES	29
<u>PART II. OTHER INFORMATION</u>	31
ITEM 1. LEGAL PROCEEDINGS	31
ITEM 1A. RISK FACTORS	31
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	32
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	32
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	32
ITEM 5. OTHER INFORMATION	32
ITEM 6. EXHIBITS	32
SIGNATURES	34
EXHIBITS INDEX	
EXHIBIT 3.1	
EXHIBIT 3.2	
EXHIBIT 10.1	
EXHIBIT 10.2	
EXHIBIT 10.3	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32.1	
EXHIBIT 32.2	

Table of ContentsPART I. FINANCIAL INFORMATIONITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets
(In thousands, except per share data)

	(Unaudited) March 31, 2008	December 31, 2007
ASSETS		
Property, plant and equipment		
Utility plant - at original cost, net of accumulated depreciation of \$2,829,045 at March 31 and \$2,776,950 at December 31	\$ 9,296,315	\$ 9,199,909
Nonutility property, net of accumulated depreciation of \$63,207 at March 31 and \$60,587 at December 31	119,740	118,052
Total property, plant and equipment	<u>9,416,055</u>	<u>9,317,961</u>
Current assets		
Cash and cash equivalents	9,202	13,481
Restricted funds	2,149	3,258
Utility customer accounts receivable	136,261	147,640
Allowance for uncollectible accounts	(17,576)	(20,923)
Unbilled utility revenues	122,431	134,326
Non-regulated trade and other receivables, net	62,812	66,540
Taxes receivable, including federal income	23,111	23,111
Materials and supplies	28,961	27,458
Other	47,523	35,463
Total current assets	<u>414,874</u>	<u>430,354</u>
Regulatory and other long-term assets		
Regulatory assets	626,093	628,039
Restricted funds	8,997	10,252
Goodwill	1,706,952	2,456,952
Other	95,033	90,514
Total regulatory and other long-term assets	<u>2,437,075</u>	<u>3,185,757</u>
TOTAL ASSETS	<u><u>\$12,268,004</u></u>	<u><u>\$12,934,072</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Consolidated Balance Sheets**

(In thousands, except per share data)

	(Unaudited) March 31, 2008	December 31, 2007
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stockholder's equity	\$ 3,809,423	\$ 4,542,046
Preferred stock without mandatory redemption requirements	4,568	4,568
Long-term debt		
Long-term debt	4,642,315	4,674,837
Redeemable preferred stock at redemption value	24,296	24,296
Total capitalization	<u>8,480,602</u>	<u>9,245,747</u>
Current liabilities		
Short-term debt	368,137	220,514
Current portion of long-term debt	90,188	96,455
Accounts payable	119,209	168,886
Taxes accrued, including federal income	56,536	56,002
Interest accrued	85,248	50,867
Other	152,156	181,765
Total current liabilities	<u>871,474</u>	<u>774,489</u>
Regulatory and other long-term liabilities		
Advances for construction	652,536	655,375
Deferred income taxes	644,343	638,918
Deferred investment tax credits	34,957	35,361
Regulatory liability-cost of removal	202,019	192,650
Accrued pension expense	275,536	290,722
Accrued postretirement benefit expense	156,178	158,552
Other	116,596	123,871
Total regulatory and other long-term liabilities	<u>2,082,165</u>	<u>2,095,449</u>
Contributions in aid of construction	833,763	818,387
Commitments and contingencies	—	—
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$12,268,004</u></u>	<u><u>\$12,934,072</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31.	
	2008	2007
Operating revenues	\$ 506,815	\$ 468,544
Operating expenses		
Operation and maintenance	311,261	282,613
Depreciation and amortization	63,916	64,627
General taxes	52,066	47,880
(Gain) loss on sale of assets	(70)	106
Impairment charge	750,000	—
Total operating expenses, net	1,177,173	395,226
Operating (loss) income	(670,358)	73,318
Other income (deductions)		
Interest, net	(69,968)	(72,207)
Allowance for other funds used during construction	2,541	1,658
Allowance for borrowed funds used during construction	1,368	1,093
Amortization of debt expense	(1,318)	(1,219)
Preferred dividends of subsidiaries	(56)	(56)
Other, net	1,205	1,572
Total other income (deductions)	(66,228)	(69,159)
(Loss) income from continuing operations before income taxes	(736,586)	4,159
Provision for income taxes	(4,102)	1,730
(Loss) income from continuing operations	(732,484)	2,429
Income from discontinued operations, net of tax	—	256
Net (loss) income	\$ (732,484)	\$ 2,685
Basic earnings per common share:		
(Loss) income from continuing operations	\$ (4.58)	\$ 0.02
Income from discontinued operations, net of tax	\$ —	\$ 0.00
Net (loss) income	\$ (4.58)	\$ 0.02
Diluted earnings per common share:		
(Loss) income from continuing operations	\$ (4.58)	\$ 0.02
Income from discontinued operations, net of tax	\$ —	\$ 0.00
Net (loss) income	\$ (4.58)	\$ 0.02
Average common shares outstanding during the period:		
Basic	160,000	160,000
Diluted	160,000	160,000

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$(732,484)	\$ 2,685
Adjustments		
Depreciation and amortization	63,916	64,627
Impairment charge	750,000	—
Amortization of removal costs net of salvage	10,553	9,018
Provision for deferred income taxes	5,474	4,736
Amortization of deferred investment tax credits	(404)	(406)
Provision for losses on utility accounts receivable	836	2,657
Allowance for other funds used during construction	(2,541)	(1,658)
(Gain) loss on sale of assets	(70)	106
Gain on early extinguishment of debt	—	(7,064)
Other, net	(31,033)	(15,579)
Changes in assets and liabilities		
Receivables and unbilled utility revenues	22,819	18,950
Other current assets	(13,563)	(24,370)
Accounts payable	(13,595)	(17,122)
Taxes accrued, including federal income	485	5,039
Interest accrued	34,381	11,375
Other current liabilities	(9,383)	1,217
Net cash provided by operating activities	85,391	54,211
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(188,437)	(166,115)
Proceeds from sale of assets and securities	82	1,145
Removal costs from property, plant and equipment retirements, net	(1,714)	(1,880)
Net restricted funds released	2,364	1,633
Net cash used in investing activities	(187,705)	(165,217)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	—	617,253
Repayment of long-term debt	(35,915)	(266,553)
Net borrowings (repayments) under short-term debt agreements	166,740	(555,578)
Advances and contributions for construction, net of refunds	(13,673)	13,097
Change in cash overdraft position	(19,117)	—
Capital contributions	—	550,000
Debt issuance costs	—	(3,054)
Redemption of preferred stock	—	(150)
Net cash provided by financing activities	98,035	355,015
Net (decrease) increase in cash and cash equivalents	(4,279)	244,009
Cash and cash equivalents at beginning of period	13,481	29,754
Cash and cash equivalents at end of period	\$ 9,202	\$ 273,763
Non-cash investing activity:		
Capital expenditures acquired on account but unpaid at quarter-end	\$ 58,848	\$ 40,378
Non-cash financing activity:		
Advances and contributions	\$ 11,283	\$ 17,434
Capital contribution	\$ —	\$ 100,000

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies

Consolidated Statements of Changes in Common Stockholder's Equity and Comprehensive Income (Loss)

(Unaudited)

(In thousands, except per share data)

	Common Stock, \$.01 Par Value: 500,000 Shares Authorized and 160,000 Shares Issued and Outstanding		Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stockholder's Equity	Comprehensive Income (Loss)
	Shares	Par Value					
Balance at December 31, 2007	<u>160,000</u>	<u>\$ 1,600</u>	<u>\$5,637,947</u>	<u>\$ (1,079,118)</u>	<u>\$ (18,383)</u>	<u>\$4,542,046</u>	
Net loss	—	—	—	(732,484)	—	(732,484)	\$ (732,484)
Pension plan amortized to periodic benefit cost:							
Prior service cost	—	—	—	—	6	6	6
Foreign currency translation	—	—	—	—	(145)	(145)	(145)
Total comprehensive loss							<u>\$ (732,623)</u>
Balance at March 31, 2008	<u>160,000</u>	<u>\$ 1,600</u>	<u>\$5,637,947</u>	<u>\$ (1,811,602)</u>	<u>\$ (18,522)</u>	<u>\$3,809,423</u>	
	Common Stock, \$.01 Par Value: 500,000 Shares Authorized and 160,000 Shares Issued and Outstanding		Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Common Stockholder's Equity	Comprehensive Income (Loss)
	Shares	Par Value					
Balance at December 31, 2006	<u>160,000</u>	<u>\$ 1,600</u>	<u>\$4,570,855</u>	<u>\$ (736,292)</u>	<u>\$ (18,766)</u>	<u>\$3,817,397</u>	
Net income	—	—	—	2,685	—	2,685	\$ 2,685
Equity investment by RWE	—	—	650,000	—	—	650,000	
Pension plan amortized to periodic benefit cost:							
Prior service cost	—	—	—	—	9	9	9
Actuarial loss	—	—	—	—	18	18	18
Foreign currency translation	—	—	—	—	(222)	(222)	(222)
Total comprehensive income							<u>\$ 2,490</u>
Balance at March 31, 2007	<u>160,000</u>	<u>\$ 1,600</u>	<u>\$5,220,855</u>	<u>\$ (733,607)</u>	<u>\$ (18,961)</u>	<u>\$4,469,887</u>	

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited)**

(In thousands, except per share data)

Note 1: Basis of Presentation

The accompanying consolidated balance sheet of American Water Works Company, Inc. and Subsidiary Companies (the "Company") at March 31, 2008, the consolidated statements of operations for the three months ended March 31, 2008 and 2007, the consolidated statements of cash flows for the three months ended March 31, 2008 and 2007, and the consolidated statements of changes in common stockholder's equity and comprehensive income (loss) for the three months ended March 31, 2008 and 2007, are unaudited, but reflect all adjustments, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated changes in common stockholder's equity, the consolidated results of operations, and the consolidated cash flows for the periods presented. All adjustments are of a normal, recurring nature, except as otherwise disclosed. Because they cover interim periods, the unaudited consolidated financial statements and related notes to the consolidated financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's consolidated financial statements and related notes included in the Company's annual consolidated financial statements for the year ended December 31, 2007. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, due primarily to the seasonality of the Company's operations.

Note 2: New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for years beginning January 1, 2008. The Company has not elected to exercise the fair value irrevocable option. Therefore, the adoption of SFAS 159 did not have an impact on the Company's results of operations, financial position or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2008, the FASB issued FASB Staff Position FAS 157-2 which allows a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, only partially adopted SFAS 157 on January 1, 2008. SFAS 157 will be adopted for the Company's nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009.

On January 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities, and nonfinancial assets and liabilities with recurring measurements. The Company's assets and liabilities measured at fair value on a recurring basis during the period were cash and cash equivalents, restricted funds and short-term debt. These assets and liabilities were measured at fair value on the balance sheet date using quoted prices in active markets (level 1 inputs, as defined by SFAS 157). The adoption of SFAS 157 for the Company's financial assets and liabilities did not have a material effect on the Company's results of operations, financial position or cash flows. The Company will be required to measure the assets of its defined benefit pension and other post retirement welfare plans pursuant to SFAS 157 at the next measurement date, which will be December 31, 2008.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited)

(In thousands, except per share data)

Note 3: Goodwill

In April of 2008, as a result of the pricing of the Company's initial public offering ("IPO") (See Note 13), management determined that an interim triggering event occurred and that it was appropriate to update its valuation analysis before the next scheduled annual test.

Based on this assessment, the Company performed an interim impairment test as of March 31, 2008. The Company concluded that the carrying value of its goodwill was impaired as a result of the current market price and trading levels of its common stock. The Company believes the offering price was indicative of the value of the Company at March 31, 2008 and accordingly, based on those factors, the Company recorded an impairment charge to goodwill related to its Regulated Businesses of \$750,000. The Company has reflected the tax effect of the impairment as a discrete item for purposes of calculating its tax provision as the charge is considered an infrequently occurring or unusual item. The impairment charge was primarily due to the market price of the Company's common stock (both the IPO price and the market price during subsequent trading) being less than what was anticipated during the Company's 2007 annual test. Also contributing to the impairment was a decline in the fair value of the Company's debt (due to increased market interest rates).

In developing the estimated fair value of the Company's reporting units, significant judgment was required. The Company determined the estimated fair value of the reporting units utilizing a methodology consistent with its 2007 annual test. Whenever possible, market information including the initial public offering price of the Company's common stock and subsequent trading price was used to update the Company's assumptions. The methodology utilized a combination of the trading price of the Company's common stock, an estimated control premium, trading price market multiples of peer companies (regulated water utilities) and the Company's discounted cash flow analysis based on the Company's five-year business plan, each of which has differing weights. The majority of the weighting is applied to the traded price as this represents the market objective evidence of fair value with minimal weight applied to the discounted cash flow analysis.

The following table summarizes the changes in the Company's goodwill by reporting unit:

	Regulated Unit	Non-regulated Units	Consolidated
Balance at December 31, 2007	\$2,327,270	\$ 129,682	\$2,456,952
Impairment	(750,000)	—	(750,000)
Balance at March 31, 2008	<u>\$1,577,270</u>	<u>\$ 129,682</u>	<u>\$1,706,952</u>

The Company may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in the valuation multiples of comparable water utilities, a decline over a period of time of the Company's stock price or the lack of appreciation of the Company's stock price to a level consistent with peer companies or increases in equity value. A decline in the forecasted results in the Company's business plan, such as changes in rate case results or capital investment budgets or changes in the Company's interest rates may also result in an incremental impairment charge.

As a result of the impairment RWE transferred \$245,000 to the Company on May 13, 2008. This cash will be used to reduce debt.

Table of Contents
American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)
Note 4: Long-Term Debt

The Company primarily incurs long-term debt to fund capital expenditures at the regulated subsidiaries. The components of long-term debt at March 31, 2008 and December 31, 2007 were:

	<u>Rate</u>	<u>Maturity Date</u>	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Long-term debt of American Water Capital Corp. ("AWCC")				
Private activity bonds and government funded debt				
Floating rate (a)	2.55%-3.20%	2018-2032	\$ 86,860	\$ 86,860
Senior notes				
Fixed rate	5.39%-6.87%	2011-2037	2,684,000	2,712,000
Long-term debt of other subsidiaries				
Private activity bonds and government funded debt				
Fixed rate	0%-6.88%	2009-2038	941,439	942,941
Floating rate (b)	2.40%-10.00%	2015-2032	178,145	178,145
Mortgage bonds				
Fixed rate	6.31%-9.71%	2008-2034	725,300	731,340
Senior debt				
Fixed rate	5.60%-9.10%	2008-2025	45,386	45,473
Mandatory redeemable preferred stock	4.60%-9.75%	2013-2036	24,644	24,644
Notes payable and other (c)	5.76%-11.77%	2008-2026	3,156	3,442
Long-term debt			<u>4,688,930</u>	<u>4,724,845</u>
Unamortized debt discount, net (d)			<u>67,869</u>	<u>70,743</u>
Total long-term debt			<u>\$4,756,799</u>	<u>\$4,795,588</u>

- (a) Tax-exempt bonds which are remarketed as money market bonds for periods up to 270 days (1 to 119 days during 2008 and 1 to 127 days during 2007). These bonds may be converted to other short-term variable-rate structures, a fixed-rate structure or subject to redemption.
- (b) \$169,585 of the total represents tax-exempt bonds which are sold at auction rates that are reset every 7 to 35 days. These bonds may be converted to other short-term variable-rate structures, a fixed-rate structure or subject to redemption. (See Note 13) The remaining \$8,560 represents tax-exempt bonds remarketed as money market bonds. See (a) above.
- (c) Includes capital lease obligations of \$1,946 and \$1,982 at March 31, 2008 and December 31, 2007, respectively.
- (d) Includes fair value adjustments from acquisition purchase accounting.

The following debt was retired through optional redemption or payment at maturity during 2008:

<u>Company</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount</u>
Long-term debt				
American Water Capital Corp.	Senior notes - fixed rate	6.87%	2011	\$28,000
Other subsidiaries		0%-9.87%	2008-2034	7,879
Total retirements & redemptions				<u>\$35,879</u>

Gains from early extinguishment of debt included in Interest, net amounted to \$0 and \$7,064 at March 31, 2008 and 2007, respectively.

Interest, net includes interest income of approximately \$1,658 and \$1,821 at March 31, 2008 and 2007, respectively.

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited)**

(In thousands, except per share data)

Note 5: Short-Term Debt

The components of short-term debt are as follows:

	March 31, 2008	December 31, 2007
Commercial paper, net of \$381 and \$680 discount	\$338,619	\$ 169,267
Book overdraft	23,081	42,198
Other short-term debt	6,437	9,049
Total short-term debt	<u>\$368,137</u>	<u>\$ 220,514</u>

Note 6: Income Taxes

The Company's estimated annual effective tax rate for the three months ended March 31, 2008 is 39.1% compared to 41.1%, excluding various discrete items, for the three months ended March 31, 2007. The change is primarily attributable to the favorable impact of tax permanent income and expense items in 2008 as compared to 2007. The Company recorded an effective rate for the first quarter 2008 of (0.6%) which reflects the tax effect of the goodwill impairment as a discrete item as the Company considers this charge an infrequently occurring or unusual event.

Note 7: Employee Benefits

The following table provides the components of net periodic benefit costs:

	Three Months Ended March 31,	
	2008	2007
Components of net periodic pension benefit cost		
Service cost	\$ 6,551	\$ 6,403
Interest cost	14,549	13,322
Expected return on plan assets	(12,925)	(11,763)
Amortization of:		
Prior service cost	45	32
Actuarial loss	1	66
Periodic pension benefit cost	<u>8,221</u>	<u>8,060</u>
Special termination pension benefit charge	—	93
Net periodic pension benefit cost	<u>\$ 8,221</u>	<u>\$ 8,153</u>

	Three Months Ended March 31,	
	2008	2007
Components of net periodic other postretirement benefit cost		
Service cost	\$ 3,106	\$ 3,171
Interest cost	7,049	6,346
Expected return on plan assets	(5,751)	(5,266)
Amortization of:		
Transition obligation	43	43
Prior service credit	203	(295)
Actuarial loss	(295)	—
Net periodic other postretirement benefit cost	<u>\$ 4,355</u>	<u>\$ 3,999</u>

The Company contributed \$23,000 to its defined benefit pension plan in the first three months of 2008 and expects to contribute \$53,000 during the balance of 2008. In addition, the Company contributed \$6,838 for the funding of its other postretirement plans in the first three months of 2008 and expects to contribute \$20,514 during the balance of 2008.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited)

(In thousands, except per share data)

Note 8: Contingencies

OMI/Thames Water Stockton, Inc. ("OMI/TW") is a 50/50 joint venture between a subsidiary of the Company and Operations Management International, Inc. ("OMI"). In February 2003, OMI/TW and the City of Stockton California (the "City") entered into a 20-year service contract for capital improvements and management services of water, wastewater and storm water utilities. By mutual agreement, OMI/TW and the City of Stockton terminated the contract effective February 29, 2008 (the "Termination Date"). Upon termination, responsibility for management and operation of the system was returned to the City. OMI/TW has agreed to provide a limited twelve month warranty relating to certain components of the facilities that OMI/TW constructed (the "WW39 Plant"), committed to pay for certain employee transition costs and assumed financial responsibility for regulatory fines levied through the Termination Date, if any, resulting from OMI/TW's failure to comply with applicable National Pollutant Discharge Elimination System permit requirements and/or design defects in the WW39 Plant. Also, during 2007, the California State Water Resources Control Board issued a notice of violation and a corresponding Settlement Communication related to a discharge into an adjacent river. OMI/TW is responsible for any fines that may result from the Settlement Communication. Given the uncertainties related to resolving the remaining issues described above, the Company has a loss reserve of approximately \$4,000 at March 31, 2008 and December 31, 2007.

In 2007, the Company, through a subsidiary and an indirect 50% owned joint venture, completed construction of two water filtration plants for total construction costs of approximately \$229,000 and \$32,000, respectively. As part of the general contractual terms of the construction contracts, the Company provides a one-year construction warranty period. As of March 31, 2008, no claims have been made related to these warranties.

The Company is also routinely involved in condemnation proceedings and legal actions incident to the normal conduct of its business. At March 31, 2008, the Company had accrued approximately \$5,000 as probable losses and it is reasonably possible that additional losses could range up to \$31,000 for these matters. For certain matters, the Company is unable to estimate any possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such claims or actions will not have a material adverse effect on the Company's results of operations, financial position or cash flows.

Note 9: Guarantees

A subsidiary holds a 50% interest in American Water-Pridesa LLC ("AW-Pridesa"), a Delaware limited liability company. Acciona Agua Corporation also holds a 50% interest. AW-Pridesa has contracted with Tampa Bay Water ("Tampa Bay"), an interlocal governmental agency of the State of Florida, to remedy and operate the Tampa Bay Seawater Desalination Plant. The Company entered into a guarantee with Tampa Bay in November 2004 for the full and prompt performance of certain contractual obligations limited to a total aggregate liability of \$35,000. Contractual obligations call for certain construction activities and management services to be completed satisfactorily. AW-Pridesa took over operation of the plant in January 2005. At December 31, 2007, the plant was fully operational and successful performance testing of the construction activities had been completed.

The Company provides financial guarantees or deposits to ensure performance of certain of its obligations on its non-regulated military agreements and Operations & Maintenance agreements. These guarantees and deposits totaled \$474,727 and \$475,278 at March 31, 2008 and December 31, 2007, respectively.

Note 10: Environmental Matters

The Company's water and wastewater operations are subject to federal, state, local and foreign requirements relating to environmental protection and as such the Company periodically becomes subject to environmental claims in the normal course of business. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to approximately \$11,000 at March 31, 2008 and December 31, 2007. At March 31, 2008, \$10,100 of the reserve relates to a conservation agreement entered

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited)**

(In thousands, except per share data)

into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates.

Note 11: Stockholder's Equity and Net Income (Loss) per Common Share

Basic net income (loss) per common share, income (loss) from continuing operations per common share and income (loss) from discontinued operations, net of tax per common share are based on the weighted average number of common shares outstanding. Diluted net income (loss) per common share, income (loss) from continuing operations per common share and income (loss) from discontinued operations, net of tax per common share are based on the weighted average number of common shares outstanding and potentially dilutive shares. The Company had no potentially dilutive shares at March 31, 2008 or December 31, 2007. All common shares at March 31, 2008 and December 31, 2007 were held by a wholly-owned subsidiary of RWE. (See Note 13)

Effective the first quarter of 2008, the Company's Board of Directors' authorized 50,000 shares of par value \$0.01 per share preferred stock. As of March 31, 2008 there are no shares outstanding.

Note 12: Segment Information

The Company has two operating segments which are also the Company's two reportable segments referred to as the Regulated Businesses and Non-regulated Businesses segments.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies
Notes to Consolidated Financial Statements (Unaudited)
(In thousands, except per share data)

The following table includes the Company's summarized segment information:

	As of or for the Three Months Ended March 31, 2008			
	Regulated	Non-regulated	Other	Consolidated
Net operating revenues	\$ 449,534	\$ 61,172	\$ (3,891)	\$ 506,815
Depreciation and amortization	60,292	1,408	2,216	63,916
Impairment charges	—	—	750,000	750,000
Total operating expenses, net	378,215	57,525	741,433	1,177,173
Adjusted EBIT (1)	71,900	4,582	—	76,482
Total assets	10,238,503	269,265	1,760,236	12,268,004
Capital expenditures	187,655	782	—	188,437

	As of or for the Three Months Ended March 31, 2007			
	Regulated	Non-regulated	Other	Consolidated
Net operating revenues	\$ 419,276	\$ 53,301	\$ (4,033)	\$ 468,544
Depreciation and amortization	61,571	2,653	403	64,627
Impairment charges	—	—	—	—
Total operating expenses, net	351,191	50,771	(6,736)	395,226
Adjusted EBIT (1)	69,114	3,701	—	72,815
Total assets	9,549,539	284,419	3,290,563	13,124,521
Capital expenditures	165,146	969	—	166,115

- (1) Management evaluates the performance of its segments and allocates resources based on several factors, of which the primary measure is Adjusted EBIT. Adjusted EBIT does not represent cash flow for periods presented and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity. Adjusted EBIT as defined by the Company may not be comparable with Adjusted EBIT as defined by other companies.

Table of Contents

American Water Works Company, Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements (Unaudited)

(In thousands, except per share data)

The following table reconciles Adjusted EBIT, as defined by the Company, to (loss) income from continuing operations before income taxes:

	For the Three Months Ended March 31, 2008		
	Regulated	Non-regulated	Total Segments
Adjusted EBIT	\$ 71,900	\$ 4,582	\$ 76,482
Add:			
Allowance for other funds used during construction	2,541	—	2,541
Allowance for borrowed funds used during construction	1,368	—	1,368
Less:			
Interest, net	(56,736)	636	(56,100)
Preferred dividends of subsidiaries	(56)	—	(56)
Amortization of debt expense	(1,318)	—	(1,318)
Segments' income from continuing operations before income taxes	\$ 17,699	\$ 5,218	22,917
Impairment charges			(750,000)
Interest, net			(13,868)
Other			4,365
Loss from continuing operations before income taxes			<u><u>\$(736,586)</u></u>

	For the Three Months Ended March 31, 2007		
	Regulated	Non-regulated	Total Segments
Adjusted EBIT	\$ 69,114	\$ 3,701	\$ 72,815
Add:			
Allowance for other funds used during construction	1,658	—	1,658
Allowance for borrowed funds used during construction	1,093	—	1,093
Less:			
Interest, net	(54,390)	(3,096)	(57,486)
Preferred dividends of subsidiaries	(56)	—	(56)
Amortization of debt expense	(1,219)	—	(1,219)
Segments' income from continuing operations before income taxes	\$ 16,200	\$ 605	16,805
Interest, net			(14,721)
Other			2,075
Income from continuing operations before income taxes			<u><u>\$ 4,159</u></u>

Note 13: Subsequent Events

On April 28, 2008, the Company completed the initial public offering of its common stock ("IPO"). RWE Aqua Holdings GmbH, the Company's selling stockholder, sold 58,000 shares of its common stock at a price of \$21.50 per share. The selling stockholder granted the underwriters a 30 day option to purchase up to an additional 8,700 shares of the Company's stock at a price of \$21.50. The Company did not receive any proceeds from the sale of shares. Prior to the IPO, the Company was a wholly-owned subsidiary of RWE. After the IPO, and assuming no exercise of the underwriters' option, RWE owns approximately 64% of the Company's common shares (or approximately 58% if the underwriters' option to purchase additional shares is exercised in full).

On April 22, 2008, RWE contributed 90 shares of the Company's common stock to the Company and the Company granted 90 restricted stock awards, 269 restricted stock units and 2,078 unvested stock options. The awards were issued to the Company's employees and certain non-employee directors under its 2007 Omnibus Equity Compensation Plan.

In April and May 2008, the Company redeemed \$144,725 of long-term auction rate debt of subsidiaries with interest rates ranging from 6.48% to 10.00% and maturities ranging from 2021 to 2032. These redemptions were financed through the issuance of additional commercial paper.

In May 2008, AWCC plans to issue in private placements additional senior notes in the principal amounts of \$110,000 at 6.25% due

in 2018 and \$90,000 at 6.55% due in 2023. The Company intends to use the proceeds to repay outstanding short-term indebtedness of AWCC.

Table of Contents**American Water Works Company, Inc. and Subsidiary Companies****Notes to Consolidated Financial Statements (Unaudited)**(In thousands, except per share data)

On May 12, 2008, the Company commenced an offer to exchange \$750,000 principal amount of its 6.085% Senior Notes due in 2017 and \$750,000 principal amount of its 6.593% Senior Notes due in 2037 which are both registered under the Securities Act of 1933 (the "Exchange Notes") for all \$750,000 of its currently outstanding 6.085% Senior Notes due in 2017 and all \$750,000 of its currently outstanding 6.593% Senior Notes due in 2037, which have not been registered under the Securities Act of 1933 (the "Original Notes"). The Company will not receive any proceeds from the exchange offer, nor will the Company's debt level change as a result of the exchange offer. The terms of the Exchange Notes and the Original Notes are substantially identical in material respects.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain matters within this Quarterly Report on Form 10-Q include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements included in this Form 10-Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future" and "intends" and similar expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Factors that could cause or contribute to differences in results and outcomes from those in our forward-looking statements include, without limitation, those items discussed in the "Risk Factors" section or other sections in the Company's Form 424(b)(4) prospectus filed April 24, 2008 with the Securities and Exchange Commission, as well as in Item IA of Part II of this Quarterly Report. All forward-looking statements are expressly qualified in their entirety by such risk factors. We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL

American Water Works Company, Inc. (herein referred to as "American Water" or the "Company") is the largest investor-owned United States water and wastewater utility company, as measured both by operating revenue and population served. Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. The businesses that provide these services are generally subject to economic regulation by state regulatory agencies in the states in which they operate. We report these results in our Regulated Businesses segment. We also provide services that are not subject to regulation by the state commissions. We report these results in our Non-regulated Businesses segment. For further description of our businesses see the "Business" section found in our Form 424(b)(4) prospectus filed on April 24, 2008 with the Securities and Exchange Commission.

You should read the following discussion in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Prospectus filed with the SEC on April 24, 2008 and with the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 424(b)(4) prospectus filed with the Securities and Exchange Commission on April 24, 2008.

OVERVIEW

Financial Results. American Water had net loss of \$732.5 million for the first quarter of 2008, compared to net income of \$2.7 million for the first quarter of 2007. Loss from continuing operations was \$732.5 million for the first quarter of 2008, compared to income from continuing operations of \$2.4 million for the first quarter of 2007. Revenues for the first quarter of 2008 increased by \$38.3 million compared to the same period in the prior year primarily due to increased revenues in our Regulated Businesses of \$30.3 million which is largely attributable to rate increases and higher revenues in our Non-regulated Businesses of \$7.9 million. Offsetting the increased revenues were \$781.9 million higher operating expenses for the three months ended March 31, 2008. These expenses primarily resulted from the impairment charge of \$750.0 million which is discussed below, increased expenses in our Regulated Businesses of \$27.0 million in first quarter of 2008 compared to 2007, mainly driven by higher employee related costs due to an increase in the number of employees, as well as higher wages and benefits and increased operating expenses in our Non-regulated Businesses of \$6.8 million which corresponds with their increased revenues.

Table of Contents

Other items affecting income from continuing operations for the three months ended March 31, 2008 as compared to the same period in the prior year include lower interest expense of \$2.2 million, as a result of the repayment of outstanding debt, and lower income tax expense of \$5.8 million.

Financing Activities. During the three months ended March 31, 2008, we met our capital resource requirements primarily with internally generated cash as well as funds from external sources, primarily commercial paper.

Regulatory Developments. In the first three months of 2008 we received authorizations for additional annualized revenues from general rate cases of \$26.0 million, assuming constant sales volumes. As of March 31, 2008 we were awaiting final orders for one general rate case that was filed in 2006, requesting \$7.0 million in total additional annual revenues and five general cases that were filed in 2007, requesting \$58.2 million in total additional annual revenues. We filed general rate cases in five additional states in the first quarter of 2008 that would provide \$231.1 million of additional revenues, if approved as filed. There is no assurance that the filed amount, or any portion thereof, of any requested increases will be granted.

Initial Public Offering. On April 28, 2008, the Company completed its initial public offering ("IPO"). RWE Aqua Holdings GmbH, the Company's selling stockholder, sold 58.0 million shares of the Company's common stock at a price of \$21.50 per share. The selling stockholder granted the underwriters a 30 day option to purchase up to an additional 8.7 million shares of the Company's stock at a price of \$21.50. The Company did not receive any proceeds from the sale of shares. Prior to the IPO, the Company was a wholly-owned subsidiary of RWE. After the IPO, and assuming no exercise of the underwriters' option, RWE owns approximately 64% of the Company's common shares (or approximately 58% if the underwriters' option to purchase additional shares is exercised in full).

On April 22, 2008, RWE contributed approximately 89.9 thousand shares of the Company's common stock to the Company and the Company granted approximately 89.9 thousand restricted stock awards, 269.3 thousand restricted stock units and 2.1 million unvested stock options. The awards were issued to the Company's employees and certain non-employee directors under our 2007 Omnibus Equity Compensation Plan.

Impairment Charge. As previously disclosed in our free writing and final prospectuses, filed April 22, 2008 and April 24, 2008, respectively, the Company determined that it was reasonably likely based in large part on an initial public offering price of our common stock of \$21.50, that the current carrying value of our goodwill which the Company recorded as a result of the 2003 acquisition of American Water by RWE and acquisition of E-Town Corporation in 2001, was impaired. At the time the Company's initial public offering price of \$21.50 was established, we were unable to determine if there was any goodwill impairment or to provide a reliable estimate of the amount of any goodwill impairment, if any.

In light of the initial public offering price and trading levels in our stock since the date of IPO, we performed an interim impairment test and on May 9, 2008, we concluded that the current carrying value of our goodwill was impaired as a result of the current market price and trading levels of our common stock. We believe the offering price was indicative of the value of the Company at March 31, 2008 and accordingly, based on those factors, we recorded an impairment charge to goodwill related to our Regulated Businesses of \$750.0 million in our financial statements as of and for the fiscal quarter ended March 31, 2008. The impairment charge was primarily due to the market price of our common stock (both the initial public offering price and the price during subsequent trading) being less than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of our debt (due to increased market interest rates).

In developing our estimated fair value of the Company's reporting units, significant judgment was required. We determined the estimated fair value of the reporting units utilizing a methodology consistent with its 2007 annual test. Whenever possible, market information including the initial public offering price of the Company's common stock and subsequent trading price was used to update our modeling assumptions. Our methodology utilized a combination of the trading price of the Company's common stock, an estimated control premium, trading price market multiples of peer companies (regulated water utilities) and the Company's discounted cash flow analysis based on our five-year business plan were used, each of which has differing weights. The majority of the weighting is applied to the traded price as this represents the market objective evidence of fair value with minimal weight applied to the discounted cash flow analysis.

Table of Contents

We may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in valuation multiples of comparable water utilities, a decline over a period of time of the Company's stock price or the lack of appreciation of the Company's stock price to a level consistent with peer companies or increases in equity value. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, may also result in an incremental impairment charge. Further recognition of impairments of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material and could make it more difficult for us to secure financing on attractive terms and maintain compliance with our debt covenants.

As a result of the impairment, RWE transferred \$245.0 million on May 13, 2008. This cash will be used to reduce debt.

Results of Operations

Three Months Ended March 31, 2008 Compared To Three Months Ended March 31, 2007

(Dollars in thousands)	For the three months ended March 31,		Favorable (Unfavorable) Change
	2008 (unaudited)	2007 (unaudited)	
Operating revenues	\$ 506,815	\$468,544	\$ 38,271
Operating expenses			
Operation and maintenance	311,261	282,613	(28,648)
Depreciation and amortization	63,916	64,627	711
General taxes	52,066	47,880	(4,186)
(Gain) loss on sale of assets	(70)	106	176
Impairment charge	750,000	—	(750,000)
Total operating expenses, net	1,177,173	395,226	(781,947)
Operating (loss) income	(670,358)	73,318	(743,676)
Other income (deductions)			
Interest, net	(69,968)	(72,207)	2,239
Allowance for other funds used during construction	2,541	1,658	883
Allowance for borrowed funds used during construction	1,368	1,093	275
Amortization of debt expense	(1,318)	(1,219)	(99)
Preferred dividends of subsidiaries	(56)	(56)	—
Other, net	1,205	1,572	(367)
Total other income (deductions)	(66,228)	(69,159)	2,931
Income (loss) from continuing operations before income taxes	(736,586)	4,159	(740,745)
Provision for income taxes	(4,102)	1,730	5,832
Income (loss) from continuing operations	(732,484)	2,429	(734,913)
Income (loss) from discontinued operations, net of tax	—	256	(256)
Net income (loss)	\$ (732,484)	\$ 2,685	\$ (735,169)

Table of Contents

The following table summarizes certain financial information for our Regulated and Non-regulated Businesses for the periods indicated (without giving effect to inter-segment eliminations):

	For the three months ended March 31.			
	2008		2007	
	Regulated Businesses	Non- regulated Businesses	Regulated Businesses	Non- regulated Businesses
	(In thousands)			
Operating revenues	\$449,534	\$ 61,172	\$419,276	\$ 53,301
Adjusted EBIT ⁽¹⁾	\$ 71,900	\$ 4,582	\$ 69,114	\$ 3,701

(1) Adjusted EBIT is defined as earnings before interest and income taxes from continuing operations. Management evaluates the performance of its segments and allocates resources based on several factors, of which the primary measure is Adjusted EBIT. Adjusted EBIT does not represent cash flow for the periods presented and should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity. Adjusted EBIT as defined by the Company may not be comparable with Adjusted EBIT as defined by other companies.

Operating revenues Our primary business involves the ownership of water and wastewater utilities that provide water and wastewater services to residential, commercial and industrial customers. As such, our results of operations are significantly impacted by rates authorized by the state regulatory commissions in the states in which we operate. The table below details the annualized revenues (assuming constant sales volumes) resulting from rate authorizations, including infrastructure charges, which were granted and became effective in 2008.

State	Annualized Rate Increases Granted (*) (In millions)
New York	\$ 4.6
Iowa	4.3
Arizona	2.4
West Virginia	14.5
Illinois	1.1
Other	0.2
Total	\$ 27.1

(*) Includes infrastructure charges

Operating revenues increased by \$38.3 million, or 8.2% for the three months ended March 31, 2008 compared to the three months ended March 31, 2007. Regulated Businesses revenues increased by \$30.3 million, or 7.2% for the three months ended March 31, 2008 compared to the same period in the prior year. The Non-regulated Businesses' revenues for the three months ended March 31, 2008 increased by \$7.9 million, or 14.8% compared to the three months ended March 31, 2007.

The increase in the Regulated Businesses revenues for the three months ended March 31, 2008 compared to the three months ended March 31, 2007 was primarily due to rate increases obtained through general rate cases in New Jersey, Pennsylvania, Missouri and Indiana (which were granted and became effective in 2007) as well as other states totaling approximately \$33.0 million. This increase was offset by a \$4.7 million decrease in revenues related to customer consumption, mainly in our states in the Western region of the United States, for the three months ended March 31, 2008 compared to the same period in the prior year.

Table of Contents

The following table sets forth the percentage of Regulated Businesses' revenues and water sales volume by customer class:

Customer Class	For the three months ended March 31,			
	Operating Revenues		Water Sales Volume	
	2008	2007	2008	2007
Water service:				
Residential	57.2%	57.4%	51.7%	52.0%
Commercial	18.4%	18.8%	21.8%	21.7%
Industrial	5.3%	5.3%	10.9%	11.4%
Public and other	12.9%	12.9%	15.6%	14.9%
Other water revenues	2.0%	1.2%	—	—
Total water revenues	95.8%	95.6%	100.0%	100.0%
Wastewater service	4.2%	4.4%		
	100.0%	100.0%		

Water Services - Water service operating revenues from residential customers for the three months ended March 31, 2008 totaled \$257.2 million, a \$16.6 million increase, or 6.9%, over the same period of 2007, mainly due to rate increases offset by a decrease in sales volume. The volume of water sold to residential customers decreased by 2.4% for the three months ended March 31, 2008 to 45.2 billion gallons, from 46.3 billion gallons for the same period in 2007, largely as a result of wetter weather conditions in California.

Water service operating revenues from commercial water customers for the three months ended March 31, 2008 increased by \$4.2 million, or 5.4%, to \$82.9 million mainly due to rate increases offset by decreases in sales volume compared to the same period in 2007. The volume of water sold to commercial customers decreased by 3.1% for the three months ended March 31, 2008, to 18.9 billion gallons, from 19.5 billion gallons for the three months ended March 31, 2007.

Water service operating revenues from industrial customers totaled \$23.8 million for the three months ended March 31, 2008, an increase of \$1.5 million, or 6.7%, over those recorded for the same period of 2007 mainly due to rate increases and increased sales volume. The volume of water sold to industrial customers totaled 9.9 billion gallons in the three months ended March 31, 2008, an increase of 1.0% over the 9.8 billion gallons for the three months ended March 31, 2007.

Water service operating revenues from public and other customers increased \$3.8 million, or 7.0%, for the three months ended March 31, 2008 to \$57.8 million from \$54.1 million for the three months ended March 31, 2007 mainly due to rate increases. Revenues from municipal governments for fire protection services and customers requiring special private fire service facilities totaled \$25.7 million for the three months ended March 31, 2008, an increase of \$1.1 million over the same period of 2007. Revenues generated by sales to governmental entities and resale customers for the three months ended March 31, 2008 totaled \$32.2 million, an increase of \$2.7 million from the three months ended March 31, 2007.

Wastewater services - Our subsidiaries provide wastewater services in 11 states. Revenues from these services increased by \$0.2 million, or 1.1%, to \$18.8 million for the three months ended March 31, 2008, from \$18.6 million for the same period of 2007. The increase was attributable to increases in rates charged to customers in states where we have wastewater operations (principally Arizona, Hawaii, and New Jersey).

Non-regulated Businesses operating revenues increased by \$7.9 million, or 14.8% for the three months ended March 31, 2008 compared to the same period in 2007. The net increase was primarily attributable to higher revenues of \$8.7 million in our Contract Operations Group and \$1.7 million in our Homeowner Services Group, partially offset by decreased revenues of \$3.0 million in our Applied Water Group. The increase in Contract Operations Group revenues was primarily due to both new contracts and incremental revenues associated with design and build contracts, as well as increased military project revenues. The increase from our Homeowner Service Group represented expansion into new geographic markets. Applied Water Group revenues were lower due to the decline in design and build activity resulting from the downturn in new home construction.

Table of Contents

Operation and maintenance. Operation and maintenance expense increased \$28.6 million, or 10.1%, for the three months ended March 31, 2008 compared to the same period in the prior year.

Operation and maintenance expenses for the three months ended March 31, 2008 and 2007, by major expense category, were as follows:

	For the three months ended March 31,	
	2008	2007
	(In thousands)	
Production costs	\$ 64,228	\$ 61,144
Employee-related costs	126,833	109,767
Operating supplies and services	69,495	63,809
Maintenance materials and services	34,947	30,149
Customer billing and accounting	7,410	8,269
Other	8,348	9,475
Total	<u>\$ 311,261</u>	<u>\$ 282,613</u>

Production costs, including fuel and power, purchased water, chemicals and waste disposal increased by \$3.1 million, or 5.0%, for the three months ended March 31, 2008 compared to the same period in 2007. The increase was primarily the result of increased costs in our Regulated Businesses of \$2.7 million. Fuel and power costs were higher by \$1.6 million which can be attributed to increases in electricity prices. Chemical costs also increased by \$0.5 million primarily due to rising chemical costs and waste disposal costs were also higher by \$0.6 million.

Employee-related costs including wage and salary, group insurance, and pension expense increased \$17.1 million or 15.5%, for the three months ended March 31, 2008 compared to the same period in the prior year. These costs represented 40.7% and 38.8% of operation and maintenance expenses for the three months ended March 31, 2008 and 2007, respectively. The increase was due to higher wage and salary expenses of \$10.2 million and \$2.2 million in our Regulated and Non-regulated Businesses, respectively, primarily resulting from an increase in the number of employees and wage rate increases. In addition, our Regulated Businesses' pension expense increased by 33.9% for the three months ended March 31, 2008 compared to the same period in the prior year. Pension expense in excess of the amount contributed to the pension plans is deferred by certain of our regulated subsidiaries pending future recovery in rates as contributions are made to the plans. Although our pension expense in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS 87) remained relatively unchanged, pension expense increased for the three months ended March 31, 2008 due to increased contributions in certain of our regulated operating companies whose costs are recovered based on the Company's funding, rather than the SFAS 87 expense.

Operating supplies and services include the day-to-day expenses of office operation, legal and other professional services, as well as information systems and other office equipment rental charges. For the three months ended March 31, 2008, these costs increased by \$5.7 million or 8.9%, compared to the same period in 2007. Factors contributing to this increase include an overall increase in general office costs of \$1.0 million mainly due to inflation, higher legal costs of \$0.7 million in one of our operating companies in the Midwest region of the United States due to eminent domain proceedings, increased materials and supplies of \$0.5 million and higher fuel and other transportation costs of \$0.5 million. Partially offsetting these increases was a decrease of \$1.8 million in remediation costs in connection with the Sarbanes-Oxley Act. Corresponding with the increase in revenues, the Non-regulated Businesses operating supplies and service expenses increased by \$2.7 million for the three months ended March 31, 2008 compared to the same period in the prior year. The increase is mainly attributable to additional expense in the Contract Operations group associated with several operating contracts (including a design, build and operate project in Fillmore, California), partially offset by lower contracted services costs in the Applied Water Management Group due to the downturn in new home construction.

Table of Contents

Maintenance materials and services, which include emergency repairs as well as costs for preventive maintenance, increased \$4.8 million or by 15.9%, for the three months ended March 31, 2008 compared to the same period in the prior year. Regulated Businesses' maintenance materials and service costs increased by \$4.4 million in the first quarter of 2008 due to costs of \$2.8 million associated with a project in Illinois to maintain valves and higher cost of removal expenses in certain of our operating companies. These increases were offset by lower main break costs in 2008 compared to higher than normal main breaks in a number of our operating companies due to winter weather conditions in the first quarter of 2007.

Customer billing and accounting expenses decreased by \$0.9 million or 10.4%, for the three months ended March 31, 2008 compared to the same period in the prior year. The decrease was the result of lower uncollectible accounts expense by our regulated subsidiaries as a result of an increased focus on collection of past due accounts.

Other operation and maintenance expenses include casualty and liability insurance premiums and regulatory costs. These costs decreased by \$1.1 million or 11.9%, in 2008 primarily due to decreased insurance costs of \$0.7 million for the three months ended March 31, 2008 due to more favorable claims experience compared to the three months ended March 31, 2007, as well as decreased regulatory expenses of \$0.4 million.

Depreciation and amortization. Depreciation and amortization expense decreased by \$0.7 million, or 1.1%, for the three months ended March 31, 2008 compared to the same period in the prior year. This decrease was primarily due to depreciation rate adjustments, particularly in our Pennsylvania subsidiary offset by increased expense due to additional utility plant placed in service.

General taxes. General taxes expense, which includes taxes for property, payroll, gross receipts, and other miscellaneous items, increased by \$4.2 million, or 8.7%, in the first quarter of 2008 compared to the first quarter of 2007. This increase is primarily due to increased gross receipts taxes of \$1.9 million in New Jersey and higher property taxes expense in Ohio of \$1.4 million.

(Gain) loss on sale of assets. Our gain on sale of assets was \$0.1 million for the three months ended March 31, 2008 compared to a loss of \$0.1 million for the three months ended March 31, 2007 due to non-recurring sales of assets not needed in our utility operations.

Impairment charge. Our impairment charge was \$750.0 million for the three months ended March 31, 2008. The first quarter 2008 impairment charge was primarily due to the market price of the Company's common stock (both the initial public offering price and the price during subsequent trading) being less than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of the Company's debt (due to increased interest rates). There was no impairment charge for the three months ended March 31, 2007.

Other income (deductions). Interest, the primary component of our other income (deductions), decreased by \$2.2 million, or 3.1% for the three months ended March 31, 2008 compared to the same period in the prior year. The decline is primarily due to the repayment of outstanding debt with the 2007 equity contributions from RWE that were made to establish a capital structure that is consistent with other regulated utilities and also to meet the capital structure expectations of various state regulatory commissions.

Provision for income taxes. Our consolidated provision for income taxes decreased \$5.8 million or 337.1%, to a tax benefit of \$4.1 million for the three months ended March 31, 2008 from a tax expense of \$1.7 million for the three months ended March 31, 2007. The Company recorded an effective tax rate for the first quarter 2008 of (0.6%) which reflects the tax effect of the goodwill impairment as a discrete item as we consider this charge an infrequently occurring or unusual event.

Net income (loss). Net income decreased \$735.2 million, to a net loss of \$(732.5) million for the three months ended March 31, 2008 from net income of \$2.7 million for the three months ended March 31, 2007. The decrease is the result of the aforementioned changes.

Table of Contents

Liquidity and Capital Resources

Our business is capital intensive and requires considerable capital resources. A portion of these capital resources are provided by internally generated cash flows from operations. When necessary we obtain funds from external sources in the capital markets and through bank borrowings. Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to revolving credit facilities with aggregate bank commitments of \$810.0 million that we currently utilize to support our commercial paper programs and to issue letters of credit. See the "Credit Facilities and Short-Term Debt" section below for further discussion.

In addition, our regulated utility subsidiaries receive advances and contributions from customers, home builders and real estate developers to fund construction necessary to extend service to new areas. Advances for construction are refundable for limited periods, which vary according to state regulations, as new customers begin to receive service or other contractual obligations are fulfilled. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from rate base. Generally, we depreciate contributed property and amortize contributions at the composite rate of the related property. Some of our subsidiaries do not depreciate contributed property, based on regulatory guidelines.

We use capital resources, including cash, to fund capital requirements, including construction expenditures, pay off maturing debt, pay dividends, fund pension and postretirement welfare obligations and invest in new and existing businesses. We spend a significant amount of cash on construction projects that have a long-term return on investment. Additionally, we operate in rate-regulated environments in which the amount of new investment recovery may be limited, and where such recovery takes place over an extended period of time, as our recovery is subject to regulatory lag. As a result of these factors, our working capital, defined as current assets less current liabilities, was in a net deficit position at March 31, 2008.

We expect to fund future maturities of long-term debt through a combination of external debt and cash flow from operations. We have no plans to reduce debt significantly.

Cash Flows from Operating Activities

Cash flows from operating activities primarily result from the sale of water and wastewater services and due to the seasonality of operations are weighted toward the third quarter of each fiscal year. Our future cash flows from operating activities will be affected by changes in the rate regulatory environments; infrastructure investment; inflation; compliance with environmental, health and safety standards; production costs; customer growth; declining per customer usage of water; and weather and seasonality. Cash flows from operating activities for the three months ended March 31, 2008 were \$85.4 million compared to \$54.2 million for the three months ended March 31, 2007.

The following table provides a summary of the major items affecting our cash flows from operating activities for the three months ended March 31, 2008 and 2007:

	For the three months ended March 31,	
	2008	2007
	(In thousands)	
Net income (loss)	\$(732,484)	\$ 2,685
Add (subtract):		
Non-cash operating activities (1)	826,569	81,890
Changes in working capital (2)	21,144	(4,911)
Pension and postretirement healthcare contributions	(29,838)	(25,453)
Net cash flows provided by operations	<u>\$ 85,391</u>	<u>\$ 54,211</u>

- (1) Includes depreciation and amortization, impairment charges, removal costs net of salvage, provision for deferred income taxes, amortization of deferred investment tax credits, provision for losses on utility accounts receivable, allowance for other funds used during construction, (gain) loss on sale of assets, and other non-cash items, net less pension and postretirement healthcare contributions.
- (2) Changes in working capital include changes to accounts receivable and unbilled utility revenue, taxes receivable (including federal income), other current assets, accounts payable, taxes accrued (including federal income), interest accrued and other current liabilities.

Table of Contents

Cash Flows from Investing Activities

Cash flows used in investing activities for the three months ended March 31, 2008 and 2007 were \$187.7 million and \$165.2 million, respectively. Construction expenditures increased \$22.3 million to \$188.4 million for the three months ended March 31, 2008 from \$166.1 million for the three months ended March 31, 2007 as a result of continuing to increase our investment in regulated utility plant projects. Construction expenditures for the periods noted above included customer advances and contributions for construction (net of refunds) of (\$13.7) million and \$13.1 million for the three months ended March 31, 2008 and 2007, respectively.

Our construction program consists of both infrastructure renewal programs, where we replace infrastructure, as needed, and construction of facilities to meet new customer growth. Also, an integral aspect of our strategy is to seek growth through tuck-ins and other acquisitions which are complementary to our existing business and support the continued geographical diversification and growth of our operations. Generally, acquisitions will be funded initially with short-term debt and later refinanced with the proceeds from long-term debt or equity offerings.

Included in the 2008 planned construction expenditures is an amount to construct a new water treatment plant on the Kentucky River of approximately \$26 million. On April 25, 2008, the Kentucky Public Service Commission approved Kentucky American Water's application for a certificate of convenience and necessity to construct a 20.0 to 25.0 million gallon per day treatment plant on the Kentucky River and a 30.6 mile pipeline to meet Central Kentucky's water supply deficit. The Kentucky project is expected to be completed by 2010 with an estimated cost of between \$162 million and \$168 million.

On December 21, 2007, New Jersey-American Water, our subsidiary, signed an agreement with the City of Trenton, New Jersey to purchase the assets of the city's water system located in Ewing, Hamilton, Hopewell and Lawrence townships for \$100.0 million. The agreement was approved by the Trenton City Council but requires approval by various regulatory agencies, including the New Jersey Board of Public Utilities. We can provide no assurances that the agreement will be approved.

Cash Flows from Financing Activities

Our financing activities include the issuance of long-term and short-term debt, primarily through our wholly-owned financing subsidiary, American Water Capital Corp. ("AWCC"). In addition, we have received capital contributions from RWE and intend to issue equity in the future to maintain an appropriate capital structure, subject to any restrictions in our registration right agreement with RWE. In order to finance new infrastructure, we received customer advances and contributions for construction (net of refunds) of (\$13.7) million and \$13.1 million for the three months ended March 31, 2008 and 2007, respectively. In connection with the RWE divestiture, we have made and will continue to make significant changes to our capital structure through debt refinancing and equity offerings.

The following long-term debt was retired through optional redemption or payment at maturity during the first quarter of 2008:

<u>Company</u>	<u>Type</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Amount (In Thousands)</u>
American Water Capital Corp.	Senior notes-fixed rate	6.87%	2011	\$ 28,000
Other subsidiaries		0%-9.87%	2008-2034	7,879
Total retirements & redemptions				<u>\$ 35,879</u>

Table of Contents

In April and May 2008, the Company redeemed \$144.7 million of long-term auction rate debt of subsidiaries with interest rates ranging from 6.48 % to 10.00% and maturities ranging from 2021 to 2032. These redemptions were financed through the issuance of additional commercial paper.

In May 2008, AWCC plans to issue in private placements additional Senior Notes in the principal amount of \$110.0 million at 6.25% due in 2018 and \$90.0 million at 6.55% due in 2023. The Company intends to use the proceeds to repay outstanding short-term indebtedness of AWCC.

On May 12, 2008, the Company commenced an offer to exchange \$750,000 principal amount of its 6.085% Senior Notes due in 2017 and \$750,000 principal amount of its 6.593% Senior Notes due in 2037 which are both registered under the Securities Act of 1933 (the "Exchange Notes") for all \$750,000 of its currently outstanding 6.085% Senior Notes due in 2017 and all \$750,000 of its currently outstanding 6.593% Senior Notes due in 2037, which have not been registered under the Securities Act of 1933 (the "Original Notes"). The Company will not receive any proceeds from the exchange offer, nor will the Company's debt level change as a result of the exchange offer. The terms of the Exchange Notes and the Original Notes are substantially identical in all material respects.

From time to time and as market conditions warrant, we may engage in long-term debt retirements via tender offers, open market repurchases or other viable alternatives to strengthen our balance sheet.

Dividends. There were no dividend payments made for the three months ended March 31, 2008 or 2007. Our board of directors has adopted a dividend policy, effective upon the consummation of the IPO, to distribute to our stockholders a portion of our net cash provided by operating activities as regular quarterly dividends, rather than retaining that cash for other purposes. Our policy will be to distribute 50% to 70% of our annual net income.

Contributions from RWE. There were no contributions from RWE for the three months ended March 31, 2008. Contributions from RWE were \$650.0 million for the three months ended March 31, 2007.

As a result of the impairment charges recorded for the three months ended March 31, 2008, RWE transferred \$245.0 million on May 13, 2008. This cash will be used to reduce debt.

Credit Facilities and Short Term Debt

The components of short-term debt were as follows:

	March 31, 2008
	(In Thousands)
Commercial paper	\$ 338,619
Book overdraft	23,081
Other short-term debt	6,437
Total short-term debt	<u>\$ 368,137</u>

Our access to external financing on reasonable terms depends on our credit ratings and current business conditions, including that of the water utility industry in general as well as conditions in the debt or equity capital markets. If these business and market conditions deteriorate to the extent that we no longer have access to the capital markets at reasonable terms, we have access to revolving credit facilities with aggregate bank commitments of \$810.0 million that we currently utilize to support our commercial paper programs and to issue letters of credit.

AWCC has entered into a one-year \$10.0 million committed revolving line of credit with PNC Bank, N.A. This line of credit will terminate on December 31, 2008 unless extended and is used primarily for short-term working capital needs. Interest rates on advances under this line of credit are based on either the prime rate of PNC Bank, N.A. or the applicable LIBOR for the term selected plus 25 basis points. As of March 31, 2008, \$6.4 million was outstanding under this revolving line of credit.

Table of Contents

On September 15, 2006, AWCC entered into an \$800.0 million unsecured revolving credit facility syndicated among a group of ten banks. This revolving credit facility, which terminates on September 15, 2012 unless extended, is principally used to support the \$700 million commercial paper program at AWCC and to provide up to \$150.0 million in letters of credit. AWCC had no loans outstanding under the net \$800.0 million unsecured revolving credit facility as of March 31, 2008.

At March 31, 2008, AWCC had the following sub-limits and available capacity under the revolving credit facility and indicated amounts of outstanding commercial paper.

Letter of Credit Sublimit (In thousands)	Available Capacity (In thousands)	Outstanding Commercial Paper (In thousands)
\$ 150,000	\$ 71,219	\$ 338,619

Interest rates on advances under the revolving credit facility are based on either prime or LIBOR plus an applicable margin based upon our credit ratings, as well as total outstanding amounts under the agreement at the time of the borrowing. The maximum LIBOR margin is 55 basis points.

The revolving credit facility requires us to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.70 to 1.00. As of March 31, 2008, our ratio was 0.53 and therefore we were in compliance with the ratio.

The average interest rate on commercial paper for the three months ended March 31, 2008 was approximately 4.2 %.

Debt Covenants

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance, we or our subsidiaries may be restricted in our ability to pay dividends, issue debt or access our revolving credit lines. We were in compliance with our reporting covenants as of March 31, 2008.

Security Ratings

Our access to the capital markets, including the commercial paper market, and their respective financing costs in those markets depend on the securities ratings of the entity that is accessing the capital markets. We primarily access the capital markets, including the commercial paper market, through AWCC. However, we do issue debt at our regulated subsidiaries, primarily in the form of tax exempt securities, to lower our overall cost of debt. The following table shows the Company's securities ratings as of March 31, 2008:

Securities	Moody's Investors	Standard & Poor's
	Service	Ratings Service
Senior unsecured debt	Baa2	A-
Commercial paper	P2	A2

The Standard & Poor's ratings on American Water and AWCC remain on CreditWatch with negative implications. Moody's rating outlook for both American Water and AWCC is stable.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating.

None of our borrowings are subject to default or prepayment as a result of a downgrading of securities although such a downgrading could increase fees and interest charges under our credit facilities.

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, fuels and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance. Depending on our net position with a counterparty, the demand could be for the posting of collateral. In the absence of expressly agreed provisions that specify the collateral that must be provided, the obligation to supply the collateral requested will be a function of the facts and circumstances of the Company's situation at the time of the demand. If we can reasonably claim that we are willing and financially able to perform our obligations, it may be possible to successfully argue that no collateral should be posted or that only an amount equal to two or three months of future

payments should be sufficient.

Current Credit Market Position

The liquidity crisis that began in 2007 as a result of the collapse of the subprime mortgage market has adversely impacted global credit markets and, if it continues, could increase our cost of capital or impair our ability to access the capital markets.

Table of Contents

As of March 31, 2008, the Company had issued \$169.6 million of auction rate tax-exempt long-term debt (including \$24.9 million of variable rate demand bonds, which are periodically repriced to reflect auction rates) that are insured by AAA-rated insurers Ambac Assurance Corporation and MBIA Insurance Corporation. Due to the exposure that these bond insurers have in connection with recent developments in the subprime credit market, rating agencies have put these insurers on review for possible downgrade. Fitch has lowered the credit rating of Ambac Assurance Corporation from AAA to AA. While these debt instruments are long-term in nature, and only the variable rate demand bonds can be put back to the Company prior to maturity, the interest rates on these instruments are designed to reset periodically through an auction process. In late February 2008, the Company began to experience failed auctions for a portion of these instruments, which had interest rates of 3.65% to 4.90% as of December 31, 2007. When a failed auction occurs on a series of this debt, the Company is required to begin paying a failed-auction rate on the instruments. The failed auction interest rate for the majority of the auction rate debt is 10%. Payment of the failed-auction rate interest rates will continue until the Company is able to either successfully remarket these instruments through the auction process or refund and refinance the existing debt through the issuance of an equivalent amount of tax exempt bonds. In April and May 2008, the Company redeemed \$144.7 million of long-term auction rate debt of subsidiaries with interest rates ranging from 6.48 % to 10.00% and maturities ranging from 2021 to 2032.

At this time, the Company does not believe recent market developments significantly impact its ability to obtain financing and expects to have access to liquidity in the capital markets on favorable terms. In addition, the Company has access to unsecured revolving credit facilities, which are not as dependent upon general market conditions, with aggregate bank commitments of \$810 million, of which a portion is currently committed primarily to backstop the Company's commercial paper program and letters of credit.

Market Risk

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We use a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. As of March 31, 2008 a hypothetical 10% increase in interest rates associated with variable rate debt would result in \$1.1 million decrease in our pre-tax earnings. Our risks associated with price increase for chemicals, electricity and other commodities are reduced through long-term contracts and the ability to recover price increases through rates.

Our common stock began trading on the New York Stock Exchange on April 23, 2008. The market price of our common stock may experience fluctuations, many of which are unrelated to our operating performance. In particular, our stock price may be affected by general market movements as well as developments specifically related to the water and wastewater industry. These could include, among other things, interest rate movements, quarterly variations or changes in financial estimates by securities analysts and governmental or regulatory actions. This volatility may make it difficult for us to access the capital markets in the future through additional offerings of our common stock, regardless of our financial performance, and such difficulty may preclude us from being able to take advantage of certain business opportunities or meet business obligations.

Application of Critical Accounting Policies and Estimates

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Management's Discussion and Analysis of Financial Condition and Results of Operations—"Critical Accounting Policies and Estimates," in our Form 424(b)(4) prospectus filed on April 24, 2008 with the Securities and Exchange Commission for a discussion of the critical accounting policies.

Recent Accounting Pronouncements

See Part I, Item 1 *Financial Statements (Unaudited)- Note 2- New Accounting Pronouncements* in this Quarterly Report on Form 10-Q for a discussion of new accounting standards recently adopted or pending adoption.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. For further discussion of market risks see "Market Risk" in Part I, Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management including its principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company's management evaluated the effectiveness of the design and operation of disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act. This evaluation was done under the supervision and with the participation of management, including our President and Chief Executive Officer and our Chief Financial Officer.

Based on this evaluation and because of the material weaknesses described below, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2008. Notwithstanding these material weaknesses, management concluded that the financial statements included in this Form 10-Q for the period ended March 31, 2008 fairly present in all material respects their financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a control deficiency or a combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. However, from 2003 to April 28, 2008, we were an indirect wholly-owned subsidiary of RWE and, as a privately owned company, were not required to maintain a system of internal control consistent with the requirements of the SEC and the Sarbanes-Oxley Act, or to prepare our own financial statements. As a public reporting company, we will be required, among other things, to maintain a system of effective internal control over financial reporting suitable to prepare our publicly reported financial statements in a timely and accurate manner, and also to evaluate and report on such system of internal control. In particular, we are required to certify our compliance with Section 404 of the Sarbanes-Oxley Act for the year ended December 31, 2009, which will require us to perform system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting.

In connection with the preparation of our consolidated financial statements as of December 31, 2006, we and our independent registered public accountants identified the following material weaknesses in our internal control over financial reporting:

- Inadequate internal staffing and skills;
- Inadequate controls over financial reporting processes;
- Inadequate controls over month-end closing processes, including account reconciliations;
- Inadequate controls over maintenance of contracts and agreements;
- Inadequate controls over segregation of duties and restriction of access to key accounting applications; and
- Inadequate controls over tax accounting and accruals.

Table of Contents

Remediation of Material Weaknesses

Since joining the Company in 2006, Donald L. Correll, our Chief Executive Officer, and Ellen C. Wolf, our Chief Financial Officer, have assigned a high priority to the evaluation and remediation of our internal controls, and have taken numerous steps to remediate these material weaknesses and to evaluate and strengthen our other internal controls over financial reporting. Some of the actions taken include:

- Increasing our internal financial staff numbers and skill levels, and using external resources to
- supplement our internal staff when necessary;
- Implementing detailed processes and procedures related to our period end financial closing processes,
- key accounting applications and our financial reporting processes;
- Implementing or enhancing systems used in the financial reporting processes and month-end close processes;
- Conducting extensive training on existing and newly developed processes and procedures as well as explaining to employees Sarbanes-Oxley Act requirements and the value of internal controls;
- Enhancing our internal audit staff;
- Hiring a director of internal control and a director of taxes;
- Implementing a tracking mechanism and new policy and procedure for approval of all contracts and agreements; and
- Retaining a nationally recognized accounting and auditing firm to assist management in developing policies and procedures surrounding internal controls over financial reporting, to evaluate and test these internal controls and to assist in the remediation of internal control deficiencies.

With respect to the material weaknesses described above, we have initiated a process to clearly delineate our control weaknesses and formulated a remediation plan. We believe that we have made significant progress in remediating several of the identified material weaknesses; however, as our testing procedures have not yet been completed, we can make no assurances as to the success of our remediation efforts. As of March 31, 2008, the Company had incurred \$54.9 million to remediate these material weaknesses and to document and test key financial reporting controls. We will need to allocate additional resources to enhance the quality of our staff and to carry out the remediation of these material weaknesses. Based upon our current assessment, we expect to complete the remediation of these material weaknesses during 2008 with an estimated additional cost of approximately \$3.4 million. The Company cannot indicate with certainty that the material weaknesses will be remediated or what additional costs may be incurred. The Company needs to initiate additional controls and test the effectiveness of controls prior to concluding controls are effective. As a condition to state Public Utility Commissions' approval of the RWE Divestiture, we agreed that costs incurred in connection with our initial internal control and remediation initiatives would not be recoverable in rates charged to our customers. Elements of our remediation activities can only be accomplished over time, and our initiatives provide no assurances that they will result in an effective internal control environment. Our board of directors, in coordination with our audit committee, will continually assess the progress and sufficiency of these initiatives and make adjustments, as necessary.

The Company believes the additional control procedures as designed, when implemented, will fully remediate the above material weaknesses.

Changes in Internal Control Over Financial Reporting

Except as described above, there were no changes in internal control over financial reporting during the quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Previously reported under "Business – Legal Proceedings" in the Company's Form 424(b)(4) prospectus filed April 24, 2008.

ITEM 1A. RISK FACTORS

There have been no material changes from risk factors previously disclosed in "Risk Factors" in the Company's Form 424(b)(4) prospectus filed April 24, 2008, other than as described below.

We have recorded a significant amount of goodwill, and we may never realize the full value of our intangible assets causing us to record impairments that may negatively affect our results of operations.

Our total assets include substantial goodwill. At March 31, 2008, our goodwill totaled \$1,707.0 million. The goodwill is associated primarily with the acquisition of American Water by an affiliate of RWE in 2003 and the acquisition of E'Town Corporation in 2001. Goodwill represents the excess of the purchase price the purchaser paid over the fair value of the net tangible and intangible assets acquired. Goodwill is recorded at fair value on the date of an acquisition and, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," or SFAS No. 142, is reviewed annually or more frequently if changes in circumstances indicate the carrying value may not be recoverable. Annual impairment reviews are performed in the fourth quarter and interim reviews are performed when management determines that a triggering event has occurred. We have been required to reflect, as required by SFAS No. 142 and other applicable accounting rules, a non-cash charge to operating results for goodwill impairment in the amounts of \$396.3 million, \$227.8 million, and \$509.3 million for the years ended December 31, 2005, 2006 and 2007, respectively. These amounts include impairments relating to discontinued operations. Also, for the three months ended March 31, 2008 we recorded a goodwill impairment in the amount of \$750.0 million.

Our annual goodwill impairment test is conducted during the fourth quarter. We have processes to monitor for interim triggering events. During the third quarter of 2007 management determined that it was appropriate to update its valuation analysis as a result of our debt being placed on review for a possible downgrade and the anticipated sale of a portion of the Company in the IPO. As a result of that update, we recorded an impairment charge to goodwill of our Regulated Businesses in the amount of \$243.3 million in the third quarter of 2007. That decline in the value of our goodwill was primarily due to a slightly lower long-term earnings forecast caused by updated customer demand and usage expectations and expectations for timing of capital expenditures and rate recovery.

When we completed our annual goodwill impairment test for 2007 we determined that an impairment had occurred based upon new information regarding our market value. We incorporated this indicated market value into our valuation methodology and, based on those results, recorded an additional goodwill impairment charge to the Regulated Businesses reporting unit in the amount of \$266.0 million during the fourth quarter of 2007.

In April of 2008, we determined that it was probable based in large part on the initial public offering price of our common stock of \$21.50, that the current carrying value of our goodwill which the Company recorded as a result of the 2003 acquisition of American Water by RWE and acquisition of E'Town Corporation in 2001 was impaired. At the time the Company's initial public offering price of \$21.50 was established, we were unable to determine if there was any goodwill impairment or to provide a reliable estimate of the amount of goodwill impairment, if any. In light of the initial public offering price and trading levels in our stock since the date of the IPO, we performed an interim impairment test and on May 9, 2008, we concluded that the current carrying value of our goodwill was impaired as a result of the current market price and trading levels of our common stock. We believe the offering price was indicative of the value of the Company at March 31, 2008 and accordingly, based on those factors, recorded an impairment charge to goodwill related to our Regulated Businesses in the amount of \$750.0 million in our financial statements as of and for the fiscal quarter ended March 31, 2008. The impairment charge was primarily due to the market price of our common stock (both the initial public offering price and the price during subsequent trading) being less

Table of Contents

than what was anticipated during our 2007 annual test. Also contributing to the impairment was a decline in the fair value of our debt (due to increased market interest rates).

We may be required to recognize additional impairments in the future, depending on, among other factors, a decline over a period of time in valuation multiples of comparable water utilities, a decline over a period of time of the Company's stock price or the lack of appreciation of the Company's stock price to a level consistent with peer companies or increases in equity value. A decline in the forecasted results in our business plan, such as changes in rate case results or capital investment budgets or changes in our interest rates, may also result in an incremental impairment charge. Further recognition of impairments of a significant portion of goodwill would negatively affect our results of operations and total capitalization, the effect of which could be material and could make it more difficult for us to secure financing on attractive terms and maintain compliance with our debt covenants.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 26, 2008).
10.1	Employment Agreement between Donald L. Correll and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.2	Employment Agreement between Ellen C. Wolf and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).

Table of Contents

- 10.3 2008 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.25 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed April 15, 2008).
- *31.1 Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
- *31.2 Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
- *32.1 Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
- *32.2 Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act

* filed herewith.

Table of Contents**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

American Water Works Company, Inc.
(Registrant)

May 14, 2007
(Date)

/s/ Donald L. Correll
Donald L. Correll
President and Chief Executive Officer
(Principal Executive Officer)

May 14, 2007
(Date)

/s/ Ellen C. Wolf
Ellen C. Wolf
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description
3.1	Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
3.2	Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 26, 2008).
10.1	Employment Agreement between Donald L. Correll and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.4 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.2	Employment Agreement between Ellen C. Wolf and American Water Works Company, Inc., dated February 15, 2008 (incorporated by reference to Exhibit 10.5 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed March 6, 2008).
10.3	2008 American Water Senior Management Annual Incentive Plan (incorporated by reference to Exhibit 10.25 to American Water Works Company, Inc.'s Registration Statement on Form S-1, File No. 333-145725, filed April 15, 2008).
*31.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*31.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act
*32.1	Certification of Donald L. Correll, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act
*32.2	Certification of Ellen C. Wolf, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act

* filed herewith.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Donald L. Correll, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2008

By: /s/ Donald L. Correll

Donald L. Correll
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER AND CHIEF ACCOUNTING OFFICER

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Ellen C. Wolf, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2008

By: /s/ Ellen C. Wolf

Ellen C. Wolf

Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald L. Correll, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Donald L. Correll
Donald L. Correll
President and Chief Executive Officer
(Principal Executive Officer)

May 14, 2008

AMERICAN WATER WORKS COMPANY, INC.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ellen C. Wolf, Senior Vice President and Chief Financial Officer, of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Ellen C. Wolf
Ellen C. Wolf
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

May 14, 2008

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 109— ACCOUNTING FOR INCOME TAXES

SUMMARY

This Statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting for income taxes. This Statement supersedes FASB Statement No. 96, *Accounting for Income Taxes*, and amends or supersedes other accounting pronouncements listed in Appendix D.

Objectives of Accounting for Income Taxes

The objectives of accounting for income taxes are to recognize (a) the amount of taxes payable or refundable for the current year and (b) deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statements or tax returns.

Basic Principles of Accounting for Income Taxes

The following basic principles are applied in accounting for income taxes at the date of the financial statements:

- a. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year.
- b. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards.
- c. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.
- d. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Temporary Differences

The tax consequences of most events recognized in the financial statements

for a year are included in determining income taxes currently payable. However, tax laws often differ from the recognition and measurement requirements of financial accounting standards, and differences can arise between (a) the amount of taxable income and pretax financial income for a year and (b) the tax bases of assets or liabilities and their reported amounts in financial statements.

APB Opinion No. 11, *Accounting for Income Taxes*, used the term *timing differences* for differences between the years in which transactions affect taxable income and the years in which they enter into the determination of pretax financial income. Timing differences create differences (sometimes accumulating over more than one year) between the tax basis of an asset or liability and its reported amount in financial statements. Other events such as business combinations may also create differences between the tax basis of an asset or liability and its reported amount in financial statements. All such differences collectively are referred to as *temporary differences* in this Statement.

Deferred Tax Consequences of Temporary Differences

Temporary differences ordinarily become taxable or deductible when the related asset is recovered or the related liability is settled. A deferred tax liability or asset represents the increase or decrease in taxes payable or refundable in future years as a result of temporary differences and carryforwards at the end of the current year.

Deferred Tax Liabilities

A deferred tax liability is recognized for temporary differences that will result in taxable amounts in future years. For example, a temporary difference is created between the reported amount and the tax basis of an installment sale receivable if, for tax purposes, some or all of the gain on the installment sale will be included in the determination of taxable income in future years. Because amounts received upon recovery of that receivable will be taxable, a deferred tax liability is recognized in the current year for the related taxes payable in future years.

Deferred Tax Assets

A deferred tax asset is recognized for temporary differences that will result in deductible amounts in future years and for carryforwards. For example, a temporary difference is created between the reported amount and the tax basis of a liability for estimated expenses if, for tax purposes, those estimated expenses are not deductible until a future year. Settlement of that liability will result in tax deductions in future years, and a deferred tax asset is recognized in the current year for the reduction in taxes payable in future years. A valuation allowance is recognized if, based on the weight of available evidence, it is *more likely than not* that some portion or all of the deferred tax asset will not be realized.

Measurement of a Deferred Tax Liability or Asset

This Statement establishes procedures to (a) measure deferred tax liabilities and assets using a tax rate convention and (b) assess whether a valuation allowance should be established for deferred tax assets. Enacted tax laws and rates are considered in determining the applicable tax rate and in assessing the need for a valuation allowance.

All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Judgment must be used in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed.

Changes in Tax Laws or Rates

This Statement requires that deferred tax liabilities and assets be adjusted in the period of enactment for the effect of an enacted change in tax laws or rates. The effect is included in income from continuing operations.

Effective Date

This Statement is effective for fiscal years beginning after December 15, 1992. Earlier application is encouraged.

CONTENTS

Introduction/1-2
Standards of Financial Accounting and

Reporting:

Scope/3-5

Objectives and Basic Principles/6-15

Temporary Differences/10-15

Recognition and Measurement/16-34

Annual Computation of Deferred Tax Liabilities and Assets/17-25

A Change in the Valuation Allowance/26

An Enacted Change in Tax Laws or Rates/27

A Change in the Tax Status of an Enterprise/28

Regulated Enterprises/29

Business Combinations/30

Opinion 23 and U.S. Steamship Enterprise Temporary Differences/31-34

Intraperiod Tax Allocation/35-38

Certain Quasi Reorganizations/39

Separate Financial Statements of a Subsidiary/40

Financial Statement Presentation/41-42

Financial Statement Disclosure/43-49

Effective Date and Transition/50-59

Prior Business Combinations/53-56

Assets of Regulated Enterprises Reported on a Net-of-Tax or After-Tax Basis/57-59

Appendix B: Application of the Standards to Specific Aspects of Accounting for Income Taxes/223-276

Appendix E: Glossary/289

INTRODUCTION

1. This Statement addresses financial accounting and reporting for the effects of **income taxes**¹ that result from an enterprise's activities during the current and preceding years.

2. FASB Statement No. 96, *Accounting for Income Taxes*, which was issued in December 1987, superseded APB Opinion No. 11, *Accounting for Income Taxes*. The effective date of Statement 96 was delayed to fiscal years that begin after December 15, 1992. In March 1989, the Board began consideration of requests to amend Statement 96 to (a) change the criteria for recognition and measurement of deferred tax assets and various other requirements of Statement 96 and (b) reduce complexity. This Statement is the result of that reconsideration.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

3. This Statement establishes standards of financial accounting and reporting for income taxes that are currently payable and for the tax consequences of:

a. Revenues, expenses, gains, or losses that are included in **taxable income** of an earlier or later year than the year in which they are recognized in financial income

b. Other **events** that create differences between the tax bases of assets and liabilities and their amounts for financial reporting

c. Operating loss or tax credit **carrybacks** for refunds of taxes paid in prior years and **carryforwards** to reduce taxes payable in future years.

This Statement supersedes Statement 96 and supersedes or amends other accounting pronouncements listed in Appendix D.

4. The principles and requirements of this Statement are applicable to:

a. Domestic federal (national) income taxes (U.S. federal income taxes for U.S. enterprises) and foreign, state, and local (including franchise) taxes based on income

b. An enterprise's² domestic and foreign operations that are consolidated, combined, or accounted for by the equity method

c. Foreign enterprises in preparing financial statements in accordance with U.S. generally accepted accounting principles.

5. This Statement does not address:

a. The basic methods of accounting for the U.S. federal investment tax credit (ITC) and for foreign, state, and local investment tax credits or grants (The deferral and flow-through methods as set forth in APB Opinions No. 2 and No. 4, *Accounting for the "Investment Credit,"* continue to be acceptable methods to account for the U.S. federal ITC.)

b. Discounting (Paragraph 6 of APB Opinion No. 10, *Omnibus Opinion—1966*, addresses that subject.)

c. Accounting for income taxes in interim periods (other than the criteria for recognition of tax benefits and the effect of enacted changes in tax laws or rates and changes in valuation allowances). (APB Opinion No. 28, *Interim Financial Reporting*, and other accounting pro-

nouncements address that subject.)

Objectives and Basic Principles

6. One objective of accounting for income taxes is to recognize the amount of taxes payable or refundable for the current year. A second objective is to recognize **deferred tax liabilities and assets** for the future **tax consequences** of events³ that have been recognized in an enterprise's financial statements or tax returns.

7. Ideally, the second objective might be stated more specifically to recognize the *expected* future tax consequences of events that have been recognized in the financial statements or tax returns. However, that objective is realistically constrained because (a) the tax payment or refund that results from a particular tax return is a joint result of all the items included in that return, (b) taxes that will be paid or refunded in future years are the joint result of events of the current or prior years and events of future years, and (c) information available about the future is limited. As a result, attribution of taxes to individual items and events is arbitrary and, except in the simplest situations, requires estimates and approximations.

8. To implement the objectives in light of those constraints, the following basic principles (the only exceptions are identified in paragraph 9) are applied in accounting for income taxes at the date of the financial statements:

a. A current tax liability or asset is recognized for the estimated taxes payable or refundable on tax returns for the current year.

b. A deferred tax liability or asset is recognized for the estimated future tax effects attributable to **temporary differences** and carryforwards.

c. The measurement of current and deferred tax liabilities and assets is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

d. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

9. The only exceptions in applying those basic principles are that this Statement:

a. Continues certain exceptions to the requirements for recognition of deferred taxes for the areas addressed by APB

¹ Words that appear in the glossary are set in **boldface type** the first time they appear.

² The term *enterprise* is used throughout this Statement because accounting for income taxes is primarily an issue for business enterprises. However, the requirements of this Statement apply to the activities of a not-for-profit organization that are subject to income taxes.

³ Some events do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. In the United States, for example, interest earned on certain municipal obligations is not taxable and fines are not deductible.

Opinion No. 23, *Accounting for Income Taxes—Special Areas*, as amended by this Statement (paragraphs 31-34)

b. Provides special transitional procedures for temporary differences related to deposits in statutory reserve funds by U.S. steamship enterprises (paragraph 32)

c. Does not amend accounting for leveraged leases as required by FASB Statement No. 13, *Accounting for Leases*, and FASB Interpretation No. 21, *Accounting for Leases in a Business Combination* (paragraphs 256-258)

d. Prohibits recognition of a deferred tax liability or asset related to goodwill (or the portion thereof) for which amortization is not deductible for tax purposes (paragraph 30)

e. Does not amend Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, for income taxes paid on intercompany profits on assets remaining within the group, and prohibits recognition of a deferred tax asset for the difference between the tax basis of the assets in the buyer's tax jurisdiction and their cost as reported in the consolidated financial statements

f. Prohibits recognition of a deferred tax liability or asset for differences related to assets and liabilities that, under FASB Statement No. 52, *Foreign Currency Translation*, are remeasured from the local currency into the functional currency using historical exchange rates and that result from (1) changes in exchange rates or (2) indexing for tax purposes.

Temporary Differences

10. Income taxes currently payable⁴ for a particular year usually include the tax consequences of most events that are recognized in the financial statements for that year. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains, and losses, differences arise between:

a. The amount of taxable income and pretax financial income for a year

b. The tax bases of assets or liabilities and their reported amounts in financial statements.

11. An assumption inherent in an enterprise's statement of financial position prepared in accordance with generally accepted accounting principles is that the

reported amounts of assets and liabilities will be recovered and settled, respectively. Based on that assumption, a difference between the tax basis of an asset or a liability and its reported amount in the statement of financial position will result in taxable or deductible amounts in some future year(s) when the reported amounts of assets are recovered and the reported amounts of liabilities are settled. Examples follow:

a. Revenues or gains that are taxable after they are recognized in financial income. An asset (for example, a receivable from an installment sale) may be recognized for revenues or gains that will result in future taxable amounts when the asset is recovered.

b. Expenses or losses that are deductible after they are recognized in financial income. A liability (for example, a product warranty liability) may be recognized for expenses or losses that will result in future tax deductible amounts when the liability is settled.

c. Revenues or gains that are taxable before they are recognized in financial income. A liability (for example, subscriptions received in advance) may be recognized for an advance payment for goods or services to be provided in future years. For tax purposes, the advance payment is included in taxable income upon the receipt of cash. Future sacrifices to provide goods or services (or future refunds to those who cancel their orders) will result in future tax deductible amounts when the liability is settled.

d. Expenses or losses that are deductible before they are recognized in financial income. The cost of an asset (for example, depreciable personal property) may have been deducted for tax purposes faster than it was depreciated for financial reporting. Amounts received upon future recovery of the amount of the asset for financial reporting will exceed the remaining tax basis of the asset, and the excess will be taxable when the asset is recovered.

e. A reduction in the tax basis of depreciable assets because of tax credits.⁵ Amounts received upon future recovery of the amount of the asset for financial reporting will exceed the remaining tax basis of the asset, and the excess will be taxable when the asset is recovered.

f. ITC accounted for by the deferral method. Under Opinion 2, ITC is viewed

and accounted for as a reduction of the cost of the related asset (even though, for financial statement presentation, deferred ITC may be reported as deferred income). Amounts received upon future recovery of the reduced cost of the asset for financial reporting will be less than the tax basis of the asset, and the difference will be tax deductible when the asset is recovered.

g. An increase in the tax basis of assets because of indexing whenever the local currency is the functional currency. The tax law for a particular tax jurisdiction might require adjustment of the tax basis of a depreciable (or other) asset for the effects of inflation. The inflation-adjusted tax basis of the asset would be used to compute future tax deductions for depreciation or to compute gain or loss on sale of the asset. Amounts received upon future recovery of the local currency historical cost of the asset will be less than the remaining tax basis of the asset, and the difference will be tax deductible when the asset is recovered.

h. Business combinations accounted for by the purchase method. There may be differences between the assigned values and the tax bases of the assets and liabilities recognized in a business combination accounted for as a purchase under APB Opinion No. 16, *Business Combinations*. Those differences will result in taxable or deductible amounts when the reported amounts of the assets and liabilities are recovered and settled, respectively.

12. Examples (a)-(d) in paragraph 11 illustrate revenues, expenses, gains, or losses that are included in taxable income of an earlier or later year than the year in which they are recognized in pretax financial income. Those differences between taxable income and pretax financial income also create differences (sometimes accumulating over more than one year) between the tax basis of an asset or liability and its reported amount in the financial statements. Examples (e)-(h) in paragraph 11 illustrate other events that create differences between the tax basis of an asset or liability and its reported amount in the financial statements. For all eight examples, the differences result in taxable or deductible amounts when the reported amount of an asset or liability in the financial statements is recovered or settled, respectively.

13. This Statement refers collectively to the types of differences illustrated by those eight examples and to the ones described in paragraph 15 as *temporary differences*. Temporary differences that will result in taxable amounts in future

⁴References in this Statement to income taxes currently payable and (total) **income tax expense** are intended to include also **income taxes currently refundable** and (total) **income tax benefit**, respectively.

⁵The Tax Equity and Fiscal Responsibility Act of 1982 provided taxpayers with the choice of either (a) taking the full amount of Accelerated Cost Recovery System (ACRS) deductions and a reduced tax credit (that is, investment tax credit and certain other tax credits) or (b) taking the full tax credit and a reduced amount of ACRS deductions.

years when the related asset or liability is recovered or settled are often referred to in this Statement as **taxable temporary differences** (examples (a), (d), and (e) in paragraph 11 are taxable temporary differences). Likewise, temporary differences that will result in deductible amounts in future years are often referred to as **deductible temporary differences** (examples (b), (c), (f), and (g) in paragraph 11 are deductible temporary differences). Business combinations accounted for by the purchase method (example (h)) may give rise to both taxable and deductible temporary differences.

14. Certain basis differences may not result in taxable or deductible amounts in future years when the related asset or liability for financial reporting is recovered or settled and, therefore, may not be temporary differences for which a deferred tax liability or asset is recognized. One example under current U.S. tax law is the excess of cash surrender value of life insurance over premiums paid. That excess is a temporary difference if the cash surrender value is expected to be recovered by surrendering the policy, but is not a temporary difference if the asset is expected to be recovered without tax consequence upon the death of the insured (there will be no taxable amount if the insurance policy is held until the death of the insured).

15. Some temporary differences are deferred taxable income or tax deductions and have balances only on the income tax balance sheet and therefore cannot be identified with a particular asset or liability for financial reporting. That occurs, for example, when a long-term contract is accounted for by the percentage-of-completion method for financial reporting and by the completed-contract method for tax purposes. The temporary difference (income on the contract) is deferred income for tax purposes that becomes taxable when the contract is completed. Another example is organizational costs that are recognized as expenses when incurred for financial reporting and are deferred and deducted in a later year for tax purposes. In both instances, there is no related, identifiable asset or liability for financial reporting, but there is a temporary difference that results from an event that has been recognized in the financial statements and, based on provisions in the tax law, the temporary difference will result in taxable or deductible amounts in future years.

Recognition and Measurement

16. An enterprise shall recognize a deferred tax liability or asset for all tempo-

rary differences⁶ and operating loss and tax credit carryforwards in accordance with the provisions of paragraph 17. **Deferred tax expense or benefit** is the change during the year in an enterprise's deferred tax liabilities and assets.⁷ For deferred tax liabilities and assets acquired in a purchase business combination during the year, it is the change since the combination date. Total income tax expense or benefit for the year is the sum of deferred tax expense or benefit and income taxes currently payable or refundable.

Annual Computation of Deferred Tax Liabilities and Assets

17. Deferred taxes shall be determined separately for each tax-paying component (an individual entity or group of entities that is consolidated for tax purposes) in each tax jurisdiction. That determination includes the following procedures:

a. Identify (1) the types and amounts of existing temporary differences and (2) the nature and amount of each type of operating loss and tax credit carryforward and the remaining length of the carryforward period

b. Measure the total deferred tax liability for taxable temporary differences using the applicable tax rate (paragraph 18)

c. Measure the total deferred tax asset for deductible temporary differences and operating loss carryforwards using the applicable tax rate

d. Measure deferred tax assets for each type of tax credit carryforward

e. Reduce deferred tax assets by a **valuation allowance** if, based on the weight of available evidence, it is *more likely than not* (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.

18. The objective is to measure a deferred tax liability or asset using the enacted tax rate(s) expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. Under current U.S. federal tax law, if taxable income exceeds a specified amount, all

taxable income is taxed, in substance, at a single flat tax rate. That tax rate shall be used for measurement of a deferred tax liability or asset by enterprises for which graduated tax rates are not a significant factor. Enterprises for which graduated tax rates are a significant factor shall measure a deferred tax liability or asset using the average graduated tax rate applicable to the amount of estimated annual taxable income in the periods in which the deferred tax liability or asset is estimated to be settled or realized (paragraph 236). Other provisions of enacted tax laws should be considered when determining the tax rate to apply to certain types of temporary differences and carryforwards (for example, the tax law may provide for different tax rates on ordinary income and capital gains). If there is a phased-in change in tax rates, determination of the applicable tax rate requires knowledge about when deferred tax liabilities and assets will be settled and realized.

19. In the U.S. federal tax jurisdiction, the applicable tax rate is the regular tax rate, and a deferred tax asset is recognized for alternative minimum tax credit carryforwards in accordance with the provisions of paragraph 17(d) and (e) of this Statement. If alternative tax systems exist in jurisdictions other than the U.S. federal jurisdiction, the applicable tax rate is determined in a manner consistent with the tax law after giving consideration to any interaction (that is, a mechanism similar to the U.S. alternative minimum tax credit) between the two systems.

20. All available evidence, both positive and negative, should be considered to determine whether, based on the weight of that evidence, a valuation allowance is needed. Information about an enterprise's current financial position and its results of operations for the current and preceding years ordinarily is readily available. That historical information is supplemented by all currently available information about future years. Sometimes, however, historical information may not be available (for example, start-up operations) or it may not be as relevant (for example, if there has been a significant, recent change in circumstances) and special attention is required.

21. Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback, carryforward period available under the tax law. The following four possible sources

⁶Refer to paragraph 9. A deferred tax liability shall be recognized for the temporary differences addressed by Opinion 23 in accordance with the requirements of this Statement (paragraphs 31-34) and that Opinion, as amended.

⁷Paragraph 230 addresses the manner of reporting the transaction gain or loss that is included in the net change in a deferred foreign tax liability or asset when the reporting currency is the functional currency.

of taxable income may be available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards:

- a. Future reversals of existing taxable temporary differences
- b. Future taxable income exclusive of reversing temporary differences and carryforwards
- c. Taxable income in prior carryback year(s) if carryback is permitted under the tax law
- d. Tax-planning strategies (paragraph 22) that would, if necessary, be implemented to, for example:
 - (1) Accelerate taxable amounts to utilize expiring carryforwards
 - (2) Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss
 - (3) Switch from tax-exempt to taxable investments.

Evidence available about each of those possible sources of taxable income will vary for different tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that is recognized for deferred tax assets.

22. In some circumstances, there are actions (including elections for tax purposes) that (a) are prudent and feasible, (b) an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused, and (c) would result in realization of deferred tax assets. This Statement refers to those actions as *tax-planning strategies*. An enterprise shall consider tax-planning strategies in determining the amount of valuation allowance required. Significant expenses to implement a tax-planning strategy or any significant losses that would be recognized if that strategy were implemented (net of any recognizable tax benefits associated with those expenses or losses) shall be included in the valuation allowance. Refer to paragraphs 246-251 for additional guidance.

23. Forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years. Other examples of negative evidence include (but are not limited to) the following:

- a. A history of operating loss or tax credit carryforwards expiring unused
- b. Losses expected in early future years (by a presently profitable entity)
- c. Unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years

24. Examples (not prerequisites) of positive evidence that might support a conclusion that a valuation allowance is not needed when there is negative evidence include (but are not limited to) the following:

- a. Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures
- b. An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset
- c. A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss (for example, an unusual, infrequent, or extraordinary item) is an aberration rather than a continuing condition.

25. An enterprise must use judgment in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists (a) the more positive evidence is necessary and (b) the more difficult it is to support a conclusion that a valuation allowance is not needed for some portion or all of the deferred tax asset.

A Change in the Valuation Allowance

26. The effect of a change in the beginning-of-the-year balance of a valuation allowance that results from a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years ordinarily shall be included in income from continuing operations. The only exceptions are the initial recognition (that is, by elimination of the valuation allowance) of certain tax benefits that are allocated as required by paragraph 30 and paragraph 36 (items (c) and (e)-(g)). The effect of other changes in the balance of a valuation allowance are allocated among continuing operations and items other than continuing operations as required by paragraph 35.

An Enacted Change in Tax Laws or Rates

27. Deferred tax liabilities and assets shall be adjusted for the effect of a change in tax laws or rates. The effect shall be included in income from continuing operations for the period that includes the enactment date.

A Change in the Tax Status of an Enterprise

28. An enterprise's tax status may change from nontaxable to taxable or from taxable to nontaxable. An example is a change from a partnership to a corporation and vice versa. A deferred tax liability or asset shall be recognized for temporary differences in accordance with the requirements of this Statement at the date that a nontaxable enterprise becomes a taxable enterprise. A deferred tax liability or asset shall be eliminated at the date an enterprise ceases to be a taxable enterprise. In either case, the effect of (a) an election for a voluntary change in tax status is recognized on the approval date or on the filing date if approval is not necessary and (b) a change in tax status that results from a change in tax law is recognized on the enactment date. The effect of recognizing or eliminating the deferred tax liability or asset shall be included in income from continuing operations.

Regulated Enterprises

29. Regulated enterprises that meet the criteria for application of FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, are not exempt from the requirements of this Statement. Specifically, this Statement:

- a. Prohibits net-of-tax accounting and reporting
- b. Requires recognition of a deferred tax liability (1) for tax benefits that are flowed through to customers when temporary differences originate and (2) for the equity component of the allowance for funds used during construction
- c. Requires adjustment of a deferred tax liability or asset for an enacted change in tax laws or rates.

If, as a result of an action by a regulator, it is probable that the future increase or decrease in taxes payable for items (b) and (c) above will be recovered from or returned to customers through future rates, an asset or liability is recognized for that probable future revenue or reduction in future revenue pursuant to paragraphs 9-11 of Statement 71. That asset or liability also is a temporary difference for which a deferred tax liability or asset shall be recognized.

Business Combinations

30. A deferred tax liability or asset shall be recognized in accordance with the requirements of this Statement for differences between the assigned values and the tax bases of the assets and liabilities (except the portion of goodwill for which amortization is not deductible for tax purposes, unallocated "negative goodwill," leveraged leases, and acquired Opinion 23 differences⁸) recognized in a purchase business combination (refer to paragraphs 259-272 for additional guidance). If a valuation allowance is recognized for the deferred tax asset for an acquired entity's deductible temporary differences or operating loss or tax credit carryforwards at the acquisition date, the tax benefits for those items that are first recognized (that is, by elimination of that valuation allowance) in financial statements after the acquisition date shall be applied (a) first to reduce to zero any goodwill related to the acquisition, (b) second to reduce to zero other noncurrent intangible assets related to the acquisition, and (c) third to reduce income tax expense.

Opinion 23 and U.S. Steamship Enterprise Temporary Differences

31. A deferred tax liability is not recognized for the following types of temporary differences unless it becomes apparent that those temporary differences will reverse in the foreseeable future:

- a.** An excess of the amount for financial reporting over the tax basis of an investment in a foreign subsidiary or a foreign corporate joint venture as defined in APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, that is essentially permanent in duration
- b.** Undistributed earnings of a domestic subsidiary or a domestic corporate joint venture that is essentially permanent in duration that arose in fiscal years beginning on or before December 15, 1992⁹
- c.** "Bad debt reserves" for tax purposes of U.S. savings and loan associations (and other "qualified" thrift lenders) that arose in tax years beginning before December 31, 1987 (that is, the base-year amount)
- d.** "Policyholders' surplus" of stock life insurance companies that arose in fiscal years beginning on or before December 15, 1992.

⁸ Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement.

⁹ A last-in, first-out (LIFO) pattern determines whether reversals pertain to differences that arose in fiscal years beginning on or before December 15, 1992.

The indefinite reversal criterion in Opinion 23 shall not be applied to analogous types of temporary differences.

32. A deferred tax liability shall be recognized for the following types of taxable temporary differences:

- a.** An excess of the amount for financial reporting over the tax basis of an investment in a domestic subsidiary that arises in fiscal years beginning after December 15, 1992
- b.** An excess of the amount for financial reporting over the tax basis of an investment in a 50-percent-or-less-owned investee except as provided in paragraph 31(a) and (b) for a corporate joint venture that is essentially permanent in duration
- c.** "Bad debt reserves" for tax purposes of U.S. savings and loan associations (and other "qualified" thrift lenders) that arise in tax years beginning after December 31, 1987 (that is, amounts in excess of the base-year amount).

The tax effects of temporary differences related to deposits in statutory reserve funds by U.S. steamship enterprises that arose in fiscal years beginning on or before December 15, 1992 and that were not previously recognized shall be recognized when those temporary differences reverse or in their entirety at the beginning of the fiscal year for which this Statement is first applied.

33. Whether an excess of the amount for financial reporting over the tax basis of an investment in a more-than-50-percent-owned domestic subsidiary is a taxable temporary difference must be assessed. It is not a taxable temporary difference if the tax law provides a means by which the reported amount of that investment can be recovered tax-free and the enterprise expects that it will ultimately use that means. For example, under current U.S. federal tax law:

- a.** An enterprise may elect to determine taxable gain or loss on the liquidation of an 80-percent-or-more-owned subsidiary by reference to the tax basis of the subsidiary's net assets rather than by reference to the parent company's tax basis for the stock of that subsidiary.
- b.** An enterprise may execute a statutory merger whereby a subsidiary is merged into the parent company, the minority shareholders receive stock of the parent, the subsidiary's stock is cancelled, and no taxable gain or loss results if the continuity of ownership, continuity of business enterprise, and certain other requirements of the tax law are met.

Some elections for tax purposes are available only if the parent company owns a specified percentage of the subsidiary's stock. The parent company

sometimes may own less than that specified percentage, and the price per share to acquire a minority interest may significantly exceed the per share equivalent of the amount reported as minority interest in the consolidated financial statements. In those circumstances, the excess of the amount for financial reporting over the tax basis of the parent's investment in the subsidiary is not a taxable temporary difference if settlement of the minority interest is expected to occur at the point in time when settlement would not result in a significant cost. That could occur, for example, toward the end of the life of the subsidiary, after it has recovered and settled most of its assets and liabilities, respectively. The fair value of the minority interest ordinarily will approximately equal its percentage of the subsidiary's net assets if those net assets consist primarily of cash.

34. A deferred tax asset shall be recognized for an excess of the tax basis over the amount for financial reporting of an investment in a subsidiary or corporate joint venture that is essentially permanent in duration only if it is apparent that the temporary difference will reverse in the foreseeable future. The need for a valuation allowance for that deferred tax asset and other deferred tax assets related to Opinion 23 temporary differences (for example, a deferred tax asset for foreign tax credit carryforwards or for a savings and loan association's bad-debt reserve for financial reporting) shall be assessed. Paragraph 21 identifies four sources of taxable income to be considered in determining the need for and amount of a valuation allowance for those and other deferred tax assets. One source is future reversals of temporary differences. Future reversals of taxable differences for which a deferred tax liability has not been recognized based on the exceptions cited in paragraph 31, however, shall not be considered. Another source is future taxable income exclusive of reversing temporary differences and carryforwards. Future distributions of future earnings of a subsidiary or corporate joint venture, however, shall not be considered except to the extent that a deferred tax liability has been recognized for existing undistributed earnings or earnings have been remitted in the past.

Intraperiod Tax Allocation

35. Income tax expense or benefit for the year shall be allocated among continuing operations, discontinued operations, extraordinary items, and items charged or credited directly to shareholders' equity (paragraph 36). The

amount allocated to continuing operations is the tax effect of the pretax income or loss from continuing operations that occurred during the year, plus or minus income tax effects of (a) changes in circumstances that cause a change in judgment about the realization of deferred tax assets in future years (paragraph 26), (b) changes in tax laws or rates (paragraph 27), (c) changes in tax status (paragraph 28), and (d) tax-deductible dividends paid to shareholders (except as set forth in paragraph 36 for dividends paid on unallocated shares held by an employee stock ownership plan [ESOP] or any other stock compensation arrangement). The remainder is allocated to items other than continuing operations in accordance with the provisions of paragraph 38.

36. The tax effects of the following items occurring during the year are charged or credited directly to related components of shareholders' equity:

a. Adjustments of the opening balance of retained earnings for certain changes in accounting principles or a correction of an error

b. Gains and losses included in comprehensive income but excluded from net income (for example, translation adjustments under Statement 52 and changes in the carrying amount of marketable securities under FASB Statement No. 12, *Accounting for Certain Marketable Securities*)

c. An increase or decrease in contributed capital (for example, deductible expenditures reported as a reduction of the proceeds from issuing capital stock)

d. An increase in the tax basis of assets acquired in a taxable business combination accounted for as a pooling of interests and for which a tax benefit is recognized at the date of the business combination

e. Expenses for employee stock options recognized differently for financial reporting and tax purposes (refer to paragraph 17 of APB Opinion No. 25, *Accounting for Stock Issued to Employees*)

f. Dividends that are paid on unallocated shares held by an ESOP and that are charged to retained earnings

g. Deductible temporary differences and carryforwards that existed at the date of a quasi reorganization (except as set forth in paragraph 39).

37. The tax benefit of an operating loss carryforward or carryback (other than those carryforwards referred to at the end of this paragraph) shall be reported in the same manner as the source of the income or loss in the current year and not in the same manner as (a) the source of the operating loss carryforward or taxes

paid in a prior year or (b) the source of expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year. The only exceptions are as follows:

a. Tax effects of deductible temporary differences and carryforwards that existed at the date of a purchase business combination and for which a tax benefit is initially recognized in subsequent years in accordance with the provisions of paragraph 30

b. Tax effects of deductible temporary differences and carryforwards that are allocated to shareholders' equity in accordance with the provisions of paragraph 36 (items (c) and (e)-(g)).

38. If there is only one item other than continuing operations, the portion of income tax expense or benefit for the year that remains after the allocation to continuing operations is allocated to that item. If there are two or more items other than continuing operations, the amount that remains after the allocation to continuing operations shall be allocated among those other items in proportion to their individual effects on income tax expense or benefit for the year. When there are two or more items other than continuing operations, the sum of the separately calculated, individual effects of each item sometimes may not equal the amount of income tax expense or benefit for the year that remains after the allocation to continuing operations. In those circumstances, the procedures to allocate the remaining amount to items other than continuing operations are as follows:

a. Determine the effect on income tax expense or benefit for the year of the total net loss for all net loss items

b. Apportion the tax benefit determined in (a) ratably to each net loss item

c. Determine the amount that remains, that is, the difference between (1) the amount to be allocated to all items other than continuing operations and (2) the amount allocated to all net loss items

d. Apportion the tax expense determined in (c) ratably to each net gain item. Refer to paragraphs 273-276 for additional guidance.

Certain Quasi Reorganizations

39. The tax benefits of deductible temporary differences and carryforwards as of the date of a quasi reorganization as defined and contemplated in ARB No. 43, Chapter 7, "Capital Accounts," ordinarily are reported as a direct addition to contributed capital if the tax benefits are recognized in subsequent years. The only exception is for enterprises that

have previously both adopted Statement 96 and effected a quasi reorganization that involves only the elimination of a deficit in retained earnings by a concurrent reduction in contributed capital prior to adopting this Statement. For those enterprises, subsequent recognition of the tax benefit of prior deductible temporary differences and carryforwards is included in income and reported as required by paragraph 37 (without regard to the referenced exceptions) and then reclassified from retained earnings to contributed capital. Those enterprises should disclose (a) the date of the quasi reorganization, (b) the manner of reporting the tax benefits and that it differs from present accounting requirements for other enterprises and (c) the effect of those tax benefits on income from continuing operations, income before extraordinary items, and on net income (and on related per share amounts).

Separate Financial Statements of a Subsidiary

40. The consolidated amount of current and deferred tax expense for a group that files a consolidated tax return shall be allocated among the members of the group when those members issue separate financial statements. This Statement does not require a single allocation method. The method adopted, however, shall be systematic, rational, and consistent with the broad principles established by this Statement. A method that allocates current and deferred taxes to members of the group by applying this Statement to each member as if it were a separate taxpayer¹⁰ meets those criteria. Examples of methods that are not consistent with the broad principles established by this Statement include:

a. A method that allocates only current taxes payable to a member of the group that has taxable temporary differences

b. A method that allocates deferred taxes to a member of the group using a method fundamentally different from the asset and liability method described in this Statement (for example, the Opinion 11 deferred method)

c. A method that allocates no current or deferred tax expense to a member of the group that has taxable income because the consolidated group has no current or deferred tax expense.

¹⁰In that situation, the sum of the amounts allocated to individual members of the group may not equal the consolidated amount. That may also be the result when there are intercompany transactions between members of the group. The criteria are satisfied, nevertheless, after giving effect to the type of adjustments (including eliminations) normally present in preparing consolidated financial statements.

Certain disclosures are also required (paragraph 49).

Financial Statement Presentation

41. In a classified statement of financial position, an enterprise shall separate deferred tax liabilities and assets into a current amount and a noncurrent amount. Deferred tax liabilities and assets shall be classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. A deferred tax liability or asset that is not related to an asset or liability for financial reporting (paragraph 15), including deferred tax assets related to carryforwards, shall be classified according to the expected reversal date of the temporary difference pursuant to FASB Statement No. 37, *Balance Sheet Classification of Deferred Income Taxes*. The valuation allowance for a particular tax jurisdiction shall be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis.

42. For a particular tax-paying component of an enterprise and within a particular tax jurisdiction, (a) all current deferred tax liabilities and assets shall be offset and presented as a single amount and (b) all noncurrent deferred tax liabilities and assets shall be offset and presented as a single amount. However, an enterprise shall not offset deferred tax liabilities and assets attributable to different tax-paying components of the enterprise or to different tax jurisdictions.

Financial Statement Disclosure

43. The components of the net deferred tax liability or asset recognized in an enterprise's statement of financial position shall be disclosed as follows:

- a.** The total of all deferred tax liabilities measured in procedure (b) of paragraph 17
- b.** The total of all deferred tax assets measured in procedures (c) and (d) of paragraph 17
- c.** The total valuation allowance recognized for deferred tax assets determined in procedure (e) of paragraph 17.

The net change during the year in the total valuation allowance also shall be disclosed. A public enterprise shall disclose the approximate tax effect of each type of temporary difference and carryforward that gives rise to a significant portion of deferred tax liabilities and deferred tax assets (before allocation of valuation allowances). A nonpublic enterprise shall disclose the types of significant temporary differences and carryforwards but may omit disclosure of the tax effects of each type. A public

enterprise that is not subject to income taxes because its income is taxed directly to its owners shall disclose that fact and the net difference between the tax bases and the reported amounts of the enterprise's assets and liabilities.

44. The following information shall be disclosed whenever a deferred tax liability is not recognized because of the exceptions to comprehensive recognition of deferred taxes for any of the areas addressed by Opinion 23 (as amended by this Statement) or for deposits in statutory reserve funds by U.S. steamship enterprises:

- a.** A description of the types of temporary differences for which a deferred tax liability has not been recognized and the types of events that would cause those temporary differences to become taxable
- b.** The cumulative amount of each type of temporary difference
- c.** The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration if determination of that liability is practicable or a statement that determination is not practicable
- d.** The amount of the deferred tax liability for temporary differences other than those in (c) above (that is, undistributed domestic earnings, the bad-debt reserve for tax purposes of a U.S. savings and loan association or other qualified thrift lender, the policyholders' surplus of a life insurance enterprise, and the statutory reserve funds of a U.S. steamship enterprise) that is not recognized in accordance with the provisions of paragraphs 31 and 32.

45. The significant components of income tax expense attributable to continuing operations for each year presented shall be disclosed in the financial statements or notes thereto. Those components would include, for example:

- a.** Current tax expense or benefit
- b.** Deferred tax expense or benefit (exclusive of the effects of other components listed below)
- c.** Investment tax credits
- d.** Government grants (to the extent recognized as a reduction of income tax expense)
- e.** The benefits of operating loss carryforwards
- f.** Tax expense that results from allocating certain tax benefits either directly to contributed capital or to reduce goodwill or other noncurrent intangible assets of an acquired entity
- g.** Adjustments of a deferred tax liability or asset for enacted changes in tax laws

or rates or a change in the tax status of the enterprise

h. Adjustments of the beginning-of-the-year balance of a valuation allowance because of a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years.

46. The amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items (in accordance with the provisions of paragraphs 35-39) shall be disclosed for each year for which those items are presented.

47. A public enterprise shall disclose a reconciliation using percentages or dollar amounts of (a) the reported amount of income tax expense attributable to continuing operations for the year to (b) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations. The "statutory" tax rates shall be the regular tax rates if there are alternative tax systems. The estimated amount and the nature of each significant reconciling item shall be disclosed. A nonpublic enterprise shall disclose the nature of significant reconciling items but may omit a numerical reconciliation. If not otherwise evident from the disclosures required by this paragraph and paragraphs 43-46, all enterprises shall disclose the nature and effect of any other significant matters affecting comparability of information for all periods presented.

48. An enterprise shall disclose (a) the amounts and expiration dates of operating loss and tax credit carryforwards for tax purposes and (b) any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital (paragraphs 30 and 36).

49. An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:

- a.** The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented
- b.** The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the

years for which the disclosures in (a) above are presented.

Effective Date and Transition

50. This Statement shall be effective for fiscal years beginning after December 15, 1992. Earlier application is encouraged. Financial statements for any number of consecutive fiscal years before the effective date may be restated to conform to the provisions of this Statement. Initial application of this Statement shall be as of the beginning of an enterprise's fiscal year (that is, if the Statement is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year shall be restated). Application of the requirements for recognition of a deferred tax liability or asset for a restated interim or annual period shall be based on the facts and circumstances as they existed at that prior date and without the benefit of hindsight.

51. The effect of initially applying this Statement shall be reported as the effect of a change in accounting principle in a manner similar to the cumulative effect of a change in accounting principle (APB Opinion No. 20, *Accounting Changes*, paragraph 20) except for initially recognized tax benefits of the type required by this Statement to be excluded from comprehensive income. If the earliest year restated is not presented in the financial statements, the beginning balance of retained earnings and, if necessary, any other components of shareholders' equity for the earliest year presented shall be adjusted for the effect of the restatement as of that date. Paragraph 30 addresses the manner of reporting acquired tax benefits initially recognized subsequent to a business combination and paragraph 36 identifies five items ((c)-(g)) for which tax benefits are excluded from comprehensive income and allocated directly to contributed capital or retained earnings. Pro forma effects of retroactive application (Opinion 20, paragraph 21) are not required if statements of earnings presented for prior years are not restated.

52. When initially presented, the financial statements for the year this Statement is first adopted shall disclose:

a. The effect, if any, of adopting this Statement on pretax income from continuing operations (for example, the effect of adjustments for prior purchase business combinations and for regulated enterprises) for the year of adoption if restated financial statements for the prior year are not presented

b. The effect of any restatement on in-

come from continuing operations, income before extraordinary items, and net income (and on related per share amounts) for each year for which restated financial statements are presented.

Prior Business Combinations

53. If financial statements for prior years are restated, all purchase business combinations that were consummated in those prior years shall be remeasured in accordance with the requirements of this Statement.

54. For a purchase business combination consummated prior to the beginning of the year for which this Statement is first applied, any balance remaining as of that date for goodwill or negative goodwill shall not be adjusted to equal the amount it would be if financial statements for the year of the combination and subsequent years were restated. However, except for leveraged leases and except as provided in paragraph 55, (a) remaining balances as of the date of initially applying this Statement for assets and liabilities acquired in that combination shall be adjusted from their net-of-tax amounts to their pretax amounts and (b) any differences between those adjusted remaining balances and their tax bases are temporary differences. A deferred tax liability or asset shall be recognized for those temporary differences pursuant to the requirements of this Statement as of the beginning of the year for which this Statement is first applied.

55. If, for a particular business combination, determination of the adjustment for any or all of the assets and liabilities referred to in paragraph 54 is impracticable, either because the necessary information is no longer available or because the cost to develop that information is excessive, none of the remaining balances of any assets and liabilities acquired in that combination shall be adjusted to pretax amounts, that is, all remaining amounts that were originally assigned on a net-of-tax basis pursuant to paragraph 89 of Opinion 16 shall not be adjusted. Any differences between those unadjusted remaining balances and their tax bases are temporary differences, and a deferred tax liability or asset shall be recognized for those temporary differences pursuant to the requirements of this Statement as of the beginning of the year for which this Statement is first applied.

56. The net effect of the adjustments required by paragraphs 54 and 55 shall be included in the effect of initially applying this Statement and reported in accord-

ance with the provisions of paragraph 51.

Assets of Regulated Enterprises Reported on a Net-of-Tax or After-Tax Basis

57. Some regulated enterprises that apply Statement 71 have accounted for certain components of construction in progress on either a net-of-tax or after-tax basis, or both. Upon initial application of this Statement, those enterprises shall make appropriate adjustments required by this Statement to account for the net-of-tax and after-tax components of construction in progress as if the requirements of this Statement were applied to that construction in progress in all prior years. Except as provided in paragraph 58, the reported amount of plant in service at the beginning of the year for which this Statement is first applied shall be similarly adjusted.

58. If determination of the adjustment to plant in service referred to in paragraph 57 is impracticable, either because the necessary information is no longer available or because the cost to develop that information is excessive, any difference between the reported amount and the tax basis of that plant in service is a temporary difference, and a deferred tax liability shall be recognized for that temporary difference. If, as a result of an action by a regulator, it is probable that amounts required for settlement of that deferred tax liability will be recovered from customers through future rates, an asset and the related deferred tax liability for that additional temporary difference shall be recognized for that probable future revenue.

59. The net effect of the adjustments required by paragraphs 57 and 58 shall be included in the effect of initially applying this Statement and reported in accordance with the provisions of paragraph 51.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the six members of the Financial Accounting Standards Board:

DENNIS R. BERESFORD, Chairman
JOSEPH V. ANANIA
VICTOR H. BROWN
JAMES J. LEISENRING
A. CLARENCE SAMPSON
ROBERT J. SWIERINGA

APPENDIX B

APPLICATION OF THE STANDARDS TO SPECIFIC ASPECTS OF ACCOUNTING FOR INCOME TAXES

CONTENTS

Introduction/223
Recognition of Deferred Tax Assets and Deferred Tax Liabilities/224-232
Offset of Taxable and Deductible Amounts/227
Pattern of Taxable or Deductible Amounts/228-229
Change in Deferred Foreign Tax Assets and Liabilities/230
Special Deductions/231-232
Measurement of Deferred Tax Liabilities and Assets/233-239
Alternative Minimum Tax/238-239
Operating Loss and Tax Credit Carryforwards and Carrybacks/240-245
Recognition of a Tax Benefit for Carrybacks/240
Recognition of a Tax Benefit for Carryforwards/241-244
Reporting the Tax Benefit of Operating Loss Carryforwards or Carrybacks/245
Tax-Planning Strategies/246-251
Regulated Enterprises/252-255
Leveraged Leases/256-258
Business Combinations/259-272
Nontaxable Business Combinations/260
Taxable Business Combinations/261-263
Carryforwards—Purchase Method/264-267
Subsequent Recognition of Carryforward Benefits—Purchase Method/268-269
Carryforwards—Pooling-of-Interests Method/270-272
Intraperiod Tax Allocation/273-276

Introduction

223. This appendix provides additional discussion and examples¹⁴ that illustrate application of the standards to specific aspects of accounting for income taxes.

Recognition of Deferred Tax Assets and Deferred Tax liabilities

224. A deferred tax liability is recognized for all taxable temporary differences,¹⁵ and a deferred tax asset is recognized for all deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is recognized if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

225. The following example illustrates recognition of deferred tax assets and liabilities. At the end of year 3 (the current year), an enterprise has \$2,400 of deductible temporary differences and \$1,500 of taxable temporary differences.

A deferred tax liability is recognized at the end of year 3 for the \$1,500 of taxable temporary differences, and a deferred tax asset is recognized for the \$2,400 of deductible temporary differences. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of the deferred tax asset. If evidence about one or more sources of taxable income (refer to paragraph 21) is sufficient to support a conclusion that a valuation allowance is not needed, other sources of taxable income need not be considered. For example, if the weight of available evidence indicates that taxable income will exceed \$2,400 in each future year, a conclusion that no valuation allowance is needed can be reached without considering the pattern and timing of the reversal of the temporary differences, the existence of qualifying tax-planning strategies, and so forth.

Similarly, if the deductible temporary differences will reverse within the next 3 years and taxable income in the current year exceeds \$2,400, nothing needs to be known about future taxable income exclusive of reversing temporary differences because the deferred tax asset could be realized by carryback to the current year. A valuation allowance is needed, however, if the weight of available evidence indicates that some portion or all of the \$2,400 of tax deductions from future reversals of the deductible temporary differences will not be realized by offsetting:

- a. The \$1,500 of taxable temporary differences and \$900 of future taxable income exclusive of reversing temporary differences
- b. \$2,400 of future taxable income exclusive of reversing temporary differences
- c. \$2,400 of taxable income in the current or prior years by loss carryback to those years
- d. \$2,400 of taxable income in one or more of the circumstances described above and as a result of a qualifying tax-planning strategy (refer to paragraphs 246-251).

To the extent that evidence about one or more sources of taxable income is sufficient to eliminate any need for a valuation allowance, other sources need not be considered. Detailed forecasts, projections, or other types of analyses¹⁶ are unnecessary if expected future taxable income is more than sufficient to realize a tax benefit. Detailed analyses are not necessary, for example, if the enterprise earned \$500 of taxable income in each of years 1-3 and there is no evidence to suggest it will not continue to earn that level of taxable income in future years. That level of future taxable income is more than sufficient to realize the tax benefit of \$2,400 of tax deductions over a period of at least 19 years (the year(s) of the deductions, 3 carryback years, and 15 carryforward years) in the U.S. federal tax jurisdiction.

226. The following example illustrates recognition of a valuation allowance for a portion of a deferred tax asset in one year and a subsequent change in circumstances that requires adjust-

¹⁴The discussion and examples in this appendix assume that the tax law requires offsetting net deductions in a particular year against net taxable amounts in the 3 preceding years and then in the 15 succeeding years. Assumptions in this appendix about the tax law are for illustrative purposes only. The enacted tax law for a particular tax jurisdiction should be used for recognition and measurement of deferred tax liabilities and assets.

¹⁵Refer to paragraph 9.

¹⁶The terms *forecast* and *projection* refer to any process by which available evidence is accumulated and evaluated for purposes of estimating whether future taxable income will be sufficient to realize a deferred tax asset. Judgment is necessary to determine how detailed or formalized that evaluation process should be. Furthermore, information about expected future taxable income is necessary only to the extent positive evidence available from other sources (refer to paragraph 21) is not sufficient to support a conclusion that a valuation allowance is not needed. This Statement does not require either a *financial forecast* or *financial projection* within the meaning of those terms in the Statements on Standards for Accountants' Services on Prospective Financial Information issued by the Auditing Standards Board of the American Institute of Certified Public Accountants.

■ OFFICIAL RELEASES

ment of the valuation allowance at the end of the following year. The assumptions are as follows:

- a. At the end of the current year (year 3), an enterprise's only temporary differences are deductible temporary differences in the amount of \$900.
- b. Pretax financial income, taxable income, and taxes paid for each of years 1-3 are all positive, but relatively negligible, amounts.
- c. The enacted tax rate is 40 percent for all years.

A deferred tax asset in the amount of \$360 (\$900 at 40 percent) is recognized at the end of year 3. If management concludes, based on an assessment of all available evidence (refer to guidance in paragraphs 20-25), that it is more likely than not that future taxable income will not be sufficient to realize a tax benefit for \$400 of the \$900 of deductible temporary differences at the end of the current year, a \$160 valuation allowance (\$400 at 40 percent) is recognized at the end of year 3.

Assume that pretax financial income and taxable income for year 4 turn out to be as follows:

Pretax financial loss	\$ (50)
Reversing deductible temporary differences	(300)
Loss carryforward for tax purposes	<u>\$(350)</u>

The \$50 pretax loss in year 4 is additional negative evidence that must be weighed against available positive evidence to determine the amount of valuation allowance necessary at the end of year 4. Deductible temporary differences and carryforwards at the end of year 4 are as follows:

Loss carryforward from year 4 for tax purposes (see above)	\$350
Unreversed deductible temporary differences (\$900 - \$300)	<u>600</u>
	<u>\$950</u>

The \$360 deferred tax asset recognized at the end of year 3 is increased to \$380 (\$950 at 40 percent) at the end of year 4. Based on an assessment of all evidence available at the end of year 4, management concludes that it is more likely than not that \$240 of the deferred tax asset will not be realized and, therefore, that a \$240 valuation allowance is necessary. The \$160 valuation allowance recognized at the end of year 3 is increased to \$240 at the end of year 4. The \$60 net effect of those 2 adjustments (the \$80 increase in the valuation allowance less the \$20 increase in the deferred tax asset) results in \$60 of deferred tax expense that is recognized in year 4.

Offset of Taxable and Deductible Amounts

227. The tax law determines whether future reversals of temporary differences will result in taxable and deductible amounts that offset each other in future years. The tax law also determines the extent to which deductible temporary differences and carryforwards will offset the tax consequences of income that is expected to be earned in future years. For example, the tax law may provide that capital losses are deductible only to the extent of capital gains. In that case, a tax benefit is not recognized for temporary differences that will result in future deductions in the form of capital losses unless those deductions will offset either (a) other existing temporary differences that will result in future capital gains, (b) capital gains that are expected to occur in future years, or (c) capital gains of the cur-

rent year or prior years if carryback (of those capital loss deductions from the future reversal years) is expected.

Pattern of Taxable or Deductible Amounts

228. The particular years in which temporary differences result in taxable or deductible amounts generally are determined by the timing of the recovery of the related asset or settlement of the related liability. However, there are exceptions to that general rule. For example, a temporary difference between the tax basis and the reported amount of inventory for which cost is determined on a LIFO basis does not reverse when present inventory is sold in future years if it is replaced by purchases or production of inventory in those same future years. A LIFO inventory temporary difference becomes taxable or deductible in the future year that inventory is liquidated and not replaced.

229. For some assets or liabilities, temporary differences may accumulate over several years and then reverse over several years. That pattern is common for depreciable assets. Future originating differences for existing depreciable assets and their subsequent reversals are a factor to be considered when assessing the likelihood of future taxable income (paragraph 21(b)) for realization of a tax benefit for existing deductible temporary differences and carryforwards.

Change in Deferred Foreign Tax Assets and Liabilities

230. When the reporting currency (not the foreign currency) is the functional currency, remeasurement of an enterprise's deferred foreign tax liability or asset after a change in the exchange rate will result in a transaction gain or loss that is recognized currently in determining net income. Statement 52 requires disclosure of the aggregate transaction gain or loss included in determining net income but does not specify how to display that transaction gain or loss or its components for financial reporting. Accordingly, a transaction gain or loss that results from remeasuring a deferred foreign tax liability or asset may be included in the reported amount of deferred tax benefit or expense if that presentation is considered to be more useful. If reported in that manner, that transaction gain or loss is still included in the aggregate transaction gain or loss for the period to be disclosed as required by Statement 52.

Special Deductions

231. Statement 96 amended FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, to require recognition of statutory depletion that would result from generating future revenues exactly equal to the amount of the related assets (that is, the assets subject to statutory depletion) to the extent that the statutory depletion offsets a deferred tax liability for taxable temporary differences attributable to those assets. This Statement eliminates that amendment of Statement 19. The Board concluded that, under the basic approach to recognition of deferred tax benefits required by this Statement, the necessary past event for recognition of the tax benefit of statutory depletion is producing oil, mining copper, and so forth (or its subsequent sale). The tax benefit of statutory depletion and other types of special deductions such as those for Blue Cross-Blue Shield and small life insurance companies in future years should not be anticipated for purposes of offsetting a deferred tax liability for taxable temporary differences at the end of the current year.

232. As required above, the tax benefit of special deductions ordinarily is recognized no earlier than the year in which those special deductions are deductible on the tax return. However, some portion of the future tax effects of special deductions are implicitly recognized in determining (a) the average graduated

tax rate to be used for measuring deferred taxes when graduated tax rates are a significant factor and (b) the need for a valuation allowance for deferred tax assets. In those circumstances, implicit recognition is unavoidable because (1) those special deductions are one of the determinants of future taxable income and (2) future taxable income determines the average graduated tax rate and sometimes determines the need for a valuation allowance.

Measurement of Deferred Tax Liabilities and Assets

233. The tax rate that is used to measure deferred tax liabilities and deferred tax assets is the enacted tax rate(s) expected to apply to taxable income in the years that the liability is expected to be settled or the asset recovered. Measurements are based on elections (for example, an election for loss carryforward instead of carryback) that are expected to be made for tax purposes in future years. Presently enacted changes in tax laws and rates that become effective for a particular future year or years must be considered when determining the tax rate to apply to temporary differences reversing in that year or years. Tax laws and rates for the current year are used if no changes have been enacted for future years. An asset for deductible temporary differences that are expected to be realized in future years through carryback of a future loss to the current or a prior year (or a liability for taxable temporary differences that are expected to reduce the refund claimed for the carryback of a future loss to the current or a prior year) is measured using tax laws and rates for the current or a prior year, that is, the year for which a refund is expected to be realized based on loss carryback provisions of the tax law.

234. The following example illustrates determination of the tax rate for measurement of a deferred tax liability for taxable temporary differences when there is a phased-in change in tax rates. At the end of year 3 (the current year), an enterprise has \$2,400 of taxable temporary differences, which are expected to result in taxable amounts of approximately \$800 on the future tax returns for each of years 4-6. Enacted tax rates are 35 percent for years 1-3, 40 percent for years 4-6, and 45 percent for year 7 and thereafter.

The tax rate that is used to measure the deferred tax liability for the \$2,400 of taxable temporary differences differs depending on whether the tax effect of future reversals of those temporary differences is on taxes payable for years 1-3, years 4-6, or year 7 and thereafter. The tax rate for measurement of the deferred tax liability is 40 percent whenever taxable income is expected in years 4-6. If tax losses are expected in years 4-6, however, the tax rate is:

- a. 35 percent if realization of a tax benefit for those tax losses in years 4-6 will be by loss carryback to years 1-3
- b. 45 percent if realization of a tax benefit for those tax losses in years 4-6 will be by loss carryforward to year 7 and thereafter.

235. The following example illustrates determination of the tax rate for measurement of a deferred tax asset for deductible temporary differences when there is a change in tax rates. The assumptions are as follows:

- a. Enacted tax rates are 30 percent for years 1-3 and 40 percent for year 4 and thereafter.
- b. At the end of year 3 (the current year), an enterprise has \$900 of deductible temporary differences, which are expected to result in tax deductions of approximately \$300 on the future tax returns for each of years 4-6.

The tax rate is 40 percent if the enterprise expects to realize a tax benefit for the deductible temporary differences by offset-

ting taxable income earned in future years. Alternatively, the tax rate is 30 percent if the enterprise expects to realize a tax benefit for the deductible temporary differences by loss carryback refund.

Assume that (a) the enterprise recognizes a \$360 (\$900 at 40 percent) deferred tax asset to be realized by offsetting taxable income in future years and (b) taxable income and taxes payable in each of years 1-3 were \$300 and \$90, respectively. Realization of a tax benefit of at least \$270 (\$900 at 30 percent) is assured because carryback refunds totalling \$270 may be realized even if no taxable income is earned in future years. Recognition of a valuation allowance for the other \$90 (\$360 - \$270) of the deferred tax asset depends on management's assessment of whether, based on the weight of available evidence, a portion or all of the tax benefit of the \$900 of deductible temporary differences will not be realized at 40 percent tax rates in future years.

Alternatively, if enacted tax rates are 40 percent for years 1-3 and 30 percent for year 4 and thereafter, measurement of the deferred tax asset at a 40 percent tax rate could only occur if tax losses are expected in future years 4-6.

236. The following example illustrates determination of the average graduated tax rate for measurement of deferred tax liabilities and assets by an enterprise for which graduated tax rates ordinarily are a significant factor. At the end of year 3 (the current year), an enterprise has \$1,500 of taxable temporary differences and \$900 of deductible temporary differences, which are expected to result in net taxable amounts of approximately \$200 on the future tax returns for each of years 4-6. Enacted tax rates are 15 percent for the first \$500 of taxable income, 25 percent for the next \$500, and 40 percent for taxable income over \$1,000. This example assumes that there is no income (for example, capital gains) subject to special tax rates.

The deferred tax liability and asset for those reversing taxable and deductible temporary differences in years 4-6 are measured using the average graduated tax rate for the estimated amount of annual taxable income in future years. Thus, the average graduated tax rate will differ depending on the expected level of annual taxable income (including reversing temporary differences) in years 4-6. The average tax rate will be:

- a. 15 percent if the estimated annual level of taxable income in years 4-6 is \$500 or less
- b. 20 percent if the estimated annual level of taxable income in years 4-6 is \$1,000
- c. 30 percent if the estimated annual level of taxable income in years 4-6 is \$2,000.

Temporary differences usually do not reverse in equal annual amounts as in the example above, and a different average graduated tax rate might apply to reversals in different future years. However, a detailed analysis to determine the net reversals of temporary differences in each future year usually is not warranted. It is not warranted because the other variable (that is, taxable income or losses exclusive of reversing temporary differences in each of those future years) for determination of the average graduated tax rate in each future year is no more than an estimate. For that reason, an aggregate calculation using a single estimated average graduated tax rate based on estimated average annual taxable income in future years is sufficient. Judgment is permitted, however, to deal with unusual situations, for example, an abnormally large temporary difference that will reverse in a single future year, or an abnormal

■ OFFICIAL RELEASES

level of taxable income that is expected for a single future year. The lowest graduated tax rate should be used whenever the estimated average graduated tax rate otherwise would be zero.

237. Deferred tax liabilities and assets are measured using enacted tax rates applicable to capital gains, ordinary income, and so forth, based on the expected type of taxable or deductible amounts in future years. For example, evidence based on all facts and circumstances should determine whether an investor's liability for the tax consequences of temporary differences related to its equity in the earnings of an investee should be measured using enacted tax rates applicable to a capital gain or a dividend. Computation of a deferred tax liability for undistributed earnings based on dividends should also reflect any related dividends received deductions or foreign tax credits, and taxes that would be withheld from the dividend.

Alternative Minimum Tax

238. Temporary differences such as depreciation differences are one reason why TMT may exceed regular tax. Temporary differences, however, ultimately reverse and, absent a significant amount of preference items, total taxes paid over the entire life of the enterprise will be based on the regular tax system. Preference items are another reason why TMT may exceed regular tax. If preference items are large enough, an enterprise could be subject, over its lifetime, to the AMT system; and the cumulative amount of AMT credit carryforwards would expire unused. No one can know beforehand which scenario will prevail because that determination can only be made after the fact. In the meantime, this Statement requires procedures that provide a practical solution to that problem.

239. Under the requirements of this Statement, an enterprise should:

- Measure the total deferred tax liability and asset for regular tax temporary differences and carryforwards using the regular tax rate
- Measure the total deferred tax asset for all AMT credit carryforward
- Reduce the deferred tax asset for AMT credit carryforward by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of that deferred tax asset will not be realized.

Paragraph 21 identifies four sources of taxable income that should be considered in determining the need for and amount of a valuation allowance. No valuation allowance is necessary if the deferred tax asset for AMT credit carryforward can be realized:

- Under paragraph 21(a), by reducing a deferred tax liability from the amount of regular tax on regular tax temporary differences to not less than the amount of TMT on AMT temporary differences
- Under paragraph 21(b), by reducing taxes on future income from the amount of regular tax on regular taxable income to not less than the amount of TMT on AMT income
- Under paragraph 21(c), by loss carryback
- Under paragraph 21(d), by a tax-planning strategy such as switching from tax-exempt to taxable interest income.

Operating Loss and Tax Credit Carryforwards and Carrybacks

Recognition of a Tax Benefit for Carrybacks

240. An operating loss, certain deductible items that are subject to limitations, and some tax credits arising but not utilized in the current year may be carried back for refund of taxes paid

in prior years or carried forward to reduce taxes payable in future years. A receivable is recognized for the amount of taxes paid in prior years that is refundable by carryback of an operating loss or unused tax credits of the current year.

Recognition of a Tax Benefit for Carryforwards

241. A deferred tax asset is recognized for an operating loss or tax credit carryforward.¹⁷ In assessing the need for a valuation allowance, provisions in the tax law that limit utilization of an operating loss or tax credit carryforward are applied in determining whether it is more likely than not that some portion or all of the deferred tax asset will not be realized by reduction of taxes payable on taxable income during the carryforward period.

242. The following example illustrates recognition of the tax benefit of an operating loss in the loss year and in subsequent carryforward years when a valuation allowance is necessary in the loss year. The assumptions are as follows:

- The enacted tax rate is 40 percent for all years.
- An operating loss occurs in year 5.
- The only difference between financial and taxable income results from use of accelerated depreciation for tax purposes. Differences that arise between the reported amount and the tax basis of depreciable assets in years 1-7 will result in taxable amounts before the end of the loss carryforward period from year 5.
- Financial income, taxable income, and taxes currently payable or refundable are as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Pretax financial income (loss)	\$2,000	\$5,000	\$(8,000)	\$2,200	\$7,000
Depreciation differences	(800)	(2,200)	(800)	(700)	(600)
Loss carryback	—	—	2,800	—	—
Loss carryforward	—	—	—	(6,000)	(4,500)
Taxable income (loss)	<u>\$1,200</u>	<u>\$2,800</u>	<u>\$(6,000)</u>	<u>\$(4,500)</u>	<u>\$1,900</u>
Taxes payable (refundable)	<u>\$ 480</u>	<u>\$1,120</u>	<u>\$(1,120)</u>	<u>\$ —</u>	<u>\$ 760</u>

- At the end of year 5, profits are not expected in years 6 and 7 and later years, and it is concluded that a valuation allowance is necessary to the extent realization of the deferred tax asset for the operating loss carryforward depends on taxable income (exclusive of reversing temporary differences) in future years.

The deferred tax liability for the taxable temporary differences is calculated at the end of each year as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Unreversed differences:					
Beginning amount	\$ —	\$ 800	\$3,000	\$3,800	\$4,500
Additional amount	<u>800</u>	<u>2,200</u>	<u>800</u>	<u>700</u>	<u>600</u>
Total	<u>\$ 800</u>	<u>\$3,000</u>	<u>\$3,800</u>	<u>\$4,500</u>	<u>\$5,100</u>
Deferred tax liability (40 percent)	<u>\$ 320</u>	<u>\$1,200</u>	<u>\$1,520</u>	<u>\$1,800</u>	<u>\$2,040</u>

¹⁷ This requirement pertains to all ITC carryforwards regardless of whether the flow-through or deferral method is used to account for ITC.

The deferred tax asset and related valuation allowance for the loss carryforward are calculated at the end of each year as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Loss carry-forward for tax purposes	\$ —	\$ —	\$6,000	\$4,500	\$ —
Deferred tax asset (40 percent)	\$ —	\$ —	\$2,400	\$1,800	\$ —
Valuation allowance equal to the amount by which the deferred tax asset exceeds the deferred tax liability	—	—	(800)	—	—
Net deferred tax asset	\$ —	\$ —	\$1,520	\$1,800	\$ —

Total tax expense for each period is as follows:

	Year 1	Years 2-4	Year 5	Year 6	Year 7
Deferred tax expense (benefit):					
Increase in deferred tax liability (Increase)	\$320	\$ 880	\$ 320	\$ 280	\$ 240
decrease in net deferred tax asset	—	—	(1,520)	(280)	1,800
	320	880	(1,200)	—	2,040
Currently payable (refundable)	480	1,120	(1,120)	—	760
Total tax expense (benefit)	\$800	\$2,000	\$(2,320)	\$ —	\$2,800

In year 5, \$2,800 of the loss is carried back to reduce taxable income in years 2-4, and \$1,120 of taxes paid for those years is refunded. In addition, a \$1,520 deferred tax liability is recognized for \$3,800 of taxable temporary differences, and a \$2,400 deferred tax asset is recognized for the \$6,000 loss carryforward. However, based on the conclusion described in assumption (e), a valuation allowance is recognized for the amount by which that deferred tax asset exceeds the deferred tax liability.

In year 6, a portion of the deferred tax asset for the loss carryforward is realized because taxable income is earned in that year. The remaining balance of the deferred tax asset for the loss carryforward at the end of year 6 equals the deferred tax liability for the taxable temporary differences. A valuation allowance is not needed.

In year 7, the remaining balance of the loss carryforward is realized, and \$760 of taxes are payable on net taxable income of \$1,900. A \$2,040 deferred tax liability is recognized for the \$5,100 of taxable temporary differences.

243. An operating loss or tax credit carryforward from a prior year (for which the deferred tax asset was reduced by a valua-

tion allowance) may sometimes reduce taxable income and taxes payable that are attributable to certain revenues or gains that the tax law requires be included in taxable income for the year that cash is received. For financial reporting, however, there may have been no revenue or gain and a liability is recognized for the cash received. Future sacrifices to settle the liability will result in deductible amounts in future years. Under those circumstances, the reduction in taxable income and taxes payable from utilization of the operating loss or tax credit carryforward gives no cause for recognition of a tax benefit because, in effect, the operating loss or tax credit carryforward has been replaced by temporary differences that will result in deductible amounts when a nontax liability is settled in future years. The requirements for recognition of a tax benefit for deductible temporary differences and for operating loss carryforwards are the same, and the manner of reporting the eventual tax benefit recognized (that is, in income or as required by paragraph 37) is not affected by the intervening transaction reported for tax purposes.

244. The following example illustrates the interaction of loss carryforwards and temporary differences that will result in net deductible amounts in future years. The assumptions are as follows:

a. The financial loss and the loss reported on the tax return for an enterprise's first year of operations are the same.

b. In year 2, a gain of \$2,500 from a transaction that is a sale for tax purposes but a sale and leaseback for financial reporting is the only difference between pre-tax financial income and taxable income.

	Financial Income	Taxable Income
Year 1: Income (loss) from operations	\$(4,000)	\$(4,000)
Year 2: Income (loss) from operations	\$ —	\$ —
Taxable gain on sale		2,500
Taxable income before loss carryforward		2,500
Loss carryforward from year 1		(4,000)
Taxable income		\$ —

The \$4,000 operating loss carryforward at the end of year 1 is reduced to \$1,500 at the end of year 2 because \$2,500 of it is used to reduce taxable income. The \$2,500 reduction in the loss carryforward becomes \$2,500 of deductible temporary differences that will reverse and result in future tax deductions when lease payments are made. The enterprise has no deferred tax liability to be offset by those future tax deductions, the future tax deductions cannot be realized by loss carryback because no taxes have been paid, and the enterprise has had pretax losses for financial reporting since inception. Unless positive evidence exists that is sufficient to overcome the negative evidence associated with those losses, a valuation allowance is recognized at the end of year 2 for the full amount of the deferred tax asset related to the \$2,500 of deductible temporary differences and the remaining \$1,500 of operating loss carryforward.

Reporting the Tax Benefit of Operating Loss Carryforwards or Carrybacks

245. Except as noted in paragraph 37, the manner of reporting the tax benefit of an operating loss carryforward or carryback is determined by the source of the income or loss in the current year and not by (a) the source of the operating loss car-

ryforward or taxes paid in a prior year or (b) the source of expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year. Deferred tax expense or benefit that results because a change in circumstances causes a change in judgment about the future realization of the tax benefit of an operating loss carryforward is allocated to continuing operations (refer to paragraph 26). Thus, for example:

a. The tax benefit of an operating loss carryforward that resulted from an extraordinary loss in a prior year and that is first recognized in the financial statements for the current year:

(1) Is allocated to continuing operations if it offsets the current or deferred tax consequences of income from continuing operations

(2) Is allocated to an extraordinary gain if it offsets the current or deferred tax consequences of that extraordinary gain

(3) Is allocated to continuing operations if it results from a change in circumstances that causes a change in judgment about future realization of a tax benefit

b. The current or deferred tax benefit of a loss from continuing operations in the current year is allocated to continuing operations regardless of whether that loss offsets the current or deferred tax consequences of an extraordinary gain that:

(1) Occurred in the current year

(2) Occurred in a prior year (that is, if realization of the tax benefit will be by carryback refund)

(3) Is expected to occur in a future year.

Tax-Planning Strategies

246. Expectations about future taxable income incorporate numerous assumptions about actions, elections, and strategies to minimize income taxes in future years. For example, an enterprise may have a practice of deferring taxable income whenever possible by structuring sales to qualify as installment sales for tax purposes. Actions such as that are not *tax-planning strategies*, as that term is used in this Statement, because they are actions that management takes in the normal course of business. For purposes of applying the requirements of this Statement, a *tax-planning strategy* is an action that management ordinarily might not take but would take, if necessary, to realize a tax benefit for a carryforward before it expires. For example, a strategy to sell property and lease it back for the expressed purpose of generating taxable income to utilize a carryforward before it expires is not an action that management takes in the normal course of business. A qualifying tax-planning strategy is an action that:

a. *Is prudent and feasible.* Management must have the ability to implement the strategy and expect to do so unless the need is eliminated in future years. For example, management would not have to apply the strategy if income earned in a later year uses the entire amount of carryforward from the current year.

b. *An enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused.* All of the various strategies that are expected to be employed for business or tax purposes other than utilization of carryforwards that would otherwise expire unused are, for purposes of this Statement, implicit in management's estimate of future taxable income and, therefore, are not tax-planning strategies as that term is used in this Statement.

c. *Would result in realization of deferred tax assets.* The effect of qualifying tax-planning strategies must be recognized in the determination of the amount of a valuation allowance. Tax-planning strategies need not be considered, however, if positive evidence available from other sources (refer to paragraph 21) is sufficient to support a conclusion that a valuation allowance is *not* necessary.

247. Tax-planning strategies may shift estimated future taxable income between future years. For example, assume that an enterprise has a \$1,500 operating loss carryforward that expires at the end of next year and that its estimate of taxable income exclusive of the future reversal of existing temporary differences and carryforwards is approximately \$1,000 per year for each of the next several years. That estimate is based, in part, on the enterprise's present practice of making sales on the installment basis and on provisions in the tax law that result in temporary deferral of gains on installment sales. A tax-planning strategy to increase taxable income next year and resize the full tax benefit of that operating loss carryforward might be to structure next year's sales in a manner that does not meet the tax rules to qualify as installment sales. Another strategy might be to change next year's depreciation procedures for tax purposes.

248. Tax-planning strategies also may shift the estimated pattern and timing of future reversals of temporary differences. For example, if an operating loss carryforward otherwise would expire unused at the end of next year, a tax-planning strategy to sell the enterprise's installment sale receivables next year would accelerate the future reversal of taxable temporary differences for the gains on those installment sales. In other circumstances, a tax-planning strategy to accelerate the future reversal of *deductible* temporary differences in time to offset taxable income that is expected in an early future year might be the only means to realize a tax benefit for those deductible temporary differences if they otherwise would reverse and provide no tax benefit in some later future year(s). Examples of actions that would accelerate the future reversal of deductible temporary differences include:

a. An annual payment that is larger than an enterprise's usual annual payment to reduce a long-term pension obligation (recognized as a liability in the financial statements) might accelerate a tax deduction for pension expense to an earlier year than would otherwise have occurred.

b. Disposal of obsolete inventory that is reported at net realizable value in the financial statements would accelerate a tax deduction for the amount by which the tax basis exceeds the net realizable value of the inventory.

c. Sale of loans at their reported amount (that is, net of an allowance for bad debts) would accelerate a tax deduction for the allowance for bad debts.

249. A significant expense might need to be incurred to implement a particular tax-planning strategy, or a significant loss might need to be recognized as a result of implementing a particular tax-planning strategy. In either case, that expense or loss (net of any future tax benefit that would result from that expense or loss) reduces the amount of tax benefit that is recognized for the expected effect of a qualifying tax-planning strategy. For that purpose, the future effect of a differential in interest rates (for example, between the rate that would be earned on installment sale receivables and the rate that could be earned on an alternative investment if the tax-planning strategy is to sell those receivables to accelerate the future reversal of related taxable temporary differences) is not considered.

250. The following example illustrates recognition of a deferred tax asset based on the expected effect of a qualifying tax-planning strategy when a significant expense would be incurred to implement the strategy. The assumptions are as follows:

a. A \$900 operating loss carryforward expires at the end of next year.

b. Based on historical results and the weight of other available evidence, the estimated level of taxable income exclusive of the future reversal of existing temporary differences and the oper-

ating loss carryforward next year is \$100.

- c. Taxable temporary differences in the amount of \$1,200 ordinarily would result in taxable amounts of approximately \$400 in each of the next 3 years.
- d. There is a qualifying tax-planning strategy to accelerate the future reversal of all \$1,200 of taxable temporary differences to next year.
- e. Estimated legal and other expenses to implement that tax-planning strategy are \$150.
- f. The enacted tax rate is 40 percent for all years.

Without the tax-planning strategy, only \$500 of the \$900 operating loss carryforward could be realized next year by offsetting (a) \$100 of taxable income exclusive of reversing temporary differences and (b) \$400 of reversing taxable temporary differences. The other \$400 of operating loss carryforward would expire unused at the end of next year. Therefore, the \$360 deferred tax asset (\$900 at 40 percent) would be offset by a \$160 valuation allowance (\$400 at 40 percent), and a \$200 net deferred tax asset would be recognized for the operating loss carryforward.

With the tax-planning strategy, the \$900 operating loss carryforward could be applied against \$1,300 of taxable income next year (\$100 of taxable income exclusive of reversing temporary differences and \$1,200 of reversing taxable temporary differences). The \$360 deferred tax asset is reduced by a \$90 valuation allowance recognized for the net-of-tax expenses necessary to implement the tax-planning strategy. The amount of that valuation allowance is determined as follows:

Legal and other expenses to implement the tax-planning strategy	\$150
Future tax benefit of those legal and other expenses—\$150 at 40 percent	60
	<u>\$ 90</u>

In summary, a \$480 deferred tax liability is recognized for the \$1,200 of taxable temporary differences, a \$360 deferred tax asset is recognized for the \$900 operating loss carryforward, and a \$90 valuation allowance is recognized for the net-of-tax expenses of implementing the tax-planning strategy.

251. Under this Statement, the requirements for consideration of tax-planning strategies pertain only to the determination of a valuation allowance for a deferred tax asset. A deferred tax liability ordinarily is recognized for all taxable temporary differences. The only exceptions are identified in paragraph 9. Certain seemingly taxable temporary differences, however, may or may not result in taxable amounts when those differences reverse in future years. One example is an excess of cash surrender value of life insurance over premiums paid (paragraph 14). Another example is an excess of the book over the tax basis of an investment in a domestic subsidiary (paragraph 33). The determination of whether those differences are taxable temporary differences does not involve a tax-planning strategy as that term is used in this Statement.

Regulated Enterprises

252. Paragraph 9 of Statement 71 requires a regulated enterprise that applies Statement 71 to capitalize an incurred cost that would otherwise be charged to expense if the following criteria are met:

- a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
- b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs.

If the income taxes that result from recording a deferred tax liability in accordance with this Statement meet those criteria, an asset is recognized for those income taxes when the deferred tax liability is recognized. That asset and the deferred tax liability are not offset for general-purpose financial reporting; rather, each is displayed separately.

253. The following example illustrates recognition of an asset for the probable future revenue to recover future income taxes related to the deferred tax liability for the equity component of the allowance for funds used during construction (AFUDC). The assumptions are as follows:

- a. During year 1, the first year of operations, total construction costs for financial reporting and tax purposes are \$400,000 (exclusive of AFUDC).
- b. The enacted tax rate is 34 percent for all future years.
- c. AFUDC (consisting entirely of the equity component) is \$26,000. The asset for probable future revenue to recover the related income taxes is calculated as follows:

34 percent of (\$26,000 + A) = A (where A equals the asset for probable future revenue)

$$A = \$13,394$$

At the end of year 1, the related accounts¹⁸ are as follows:

Construction in progress	<u>\$426,000</u>
Probable future revenue	<u>\$ 13,394</u>
Deferred tax liability [34 percent of (\$26,000 + \$13,394)]	<u>\$ 13,394</u>

254. The following example illustrates adjustment of a deferred tax liability for an enacted change in tax rates. The assumptions are the same as for the example in paragraph 253 except that a change in the tax rate from 34 percent to 30 percent is enacted on the first day of year 2. As of the first day of year 2, the related accounts are adjusted so that the balances are as follows:

Construction in progress	<u>\$426,000</u>
Probable future revenue	<u>\$ 11,143</u>
Deferred tax liability [30 percent of (\$26,000 + \$11,143)]	<u>\$ 11,143</u>

255. The following example illustrates adjustment of a deferred tax liability for an enacted change in tax rates when that deferred tax liability represents amounts already collected from customers for the future payment of income taxes. In that case, there would be no asset for "probable future revenue." The assumptions are as follows:

- a. Amounts at the end of year 1, the current year, are as follows:

Construction in progress for financial reporting	<u>\$400,000</u>
Tax basis of construction in progress	<u>\$300,000</u>
Deferred tax liability (34 percent of \$100,000)	<u>\$ 34,000</u>

- b. A change in the tax rate from 34 percent to 30 percent is enacted on the first day of year 2. As a result of the reduction in tax rates, it is probable that \$4,000 of the \$34,000 (previously collected from customers for the future payment of income

¹⁸In this example, if AFUDC had consisted of a net-of-tax debt component in the amount of \$26,000, the related accounts and their balances at the end of year 1 would be construction in progress in the amount of \$439,394 and a deferred tax liability in the amount of \$13,394.

taxes) will be refunded to customers, together with the tax benefit of that refund, through a future rate reduction. The liability for the future rate reduction to refund a portion of the deferred taxes previously collected from customers is calculated as follows:

$\$4,000 + (30 \text{ percent of } R) = R$ (where R equals the probable future reduction in revenue)

$R = \$5,714$

As of the first day of year 2, the related accounts are adjusted so that the balances are as follows:

Construction in progress	<u>\$400,000</u>
Probable reduction in future revenue	<u>\$ 5,714</u>
Deferred tax liability [30 percent of (\$100,000 - \$5,714)]	<u>\$ 28,286</u>

Leveraged Leases

256. This Statement does not change (a) the pattern of recognition of after-tax income for leveraged leases as required by Statement 13 or (b) the allocation of the purchase price in a purchase business combination to acquired leveraged leases as required by Interpretation 21. Integration of the results of income tax accounting for leveraged leases with the other results of accounting for income taxes under this Statement is required when deferred tax credits related to leveraged leases are the only source (refer to paragraph 21) for recognition of a tax benefit for deductible temporary differences and carryforwards not related to leveraged leases. A valuation allowance is not necessary if deductible temporary differences and carryforwards will offset taxable amounts from future recovery of the net investment in the leveraged lease. However, to the extent that the amount of deferred tax credits for a leveraged lease as determined under Statement 13 differs from the amount of the deferred tax liability related to the leveraged lease that would otherwise result from applying the requirements of this Statement, that difference is preserved and is not a source of taxable income for recognition of the tax benefit of deductible temporary differences and operating loss or tax credit carryforwards.

257. Interpretation 21 requires that the tax effect of any difference between the assigned value and the tax basis of a leveraged lease at the date of a business combination not be accounted for as a deferred tax credit. This Statement does not change that requirement. Any tax effects included in unearned and deferred income as required by Interpretation 21 are not offset by the deferred tax consequences of other temporary differences or by the tax benefit of operating loss or tax credit carryforwards. However, deferred tax credits that arise after the date of a business combination are accounted for in the same manner as described above for leveraged leases that were not acquired in a purchase business combination.

258. The following example illustrates integration of the results of income tax accounting for leveraged leases with the other results of accounting for income taxes as required by this Statement.

a. At the end of year 1, the current year, an enterprise has two temporary differences. One temporary difference is for a leveraged lease that was entered into in a prior year. During year 1, the enacted tax rate for year 2 and thereafter changed from 40 percent to 35 percent. After adjusting for the change in estimated total net income from the lease as a result of the change in tax rates as required by Statement 13, the components of the investment in the leveraged lease at the end of year 1 are as follows:

Net rentals receivable plus residual value less unearned pretax income		\$150,000
Reduced by:		
Deferred ITC	\$ 9,000	
Deferred tax credits	<u>39,000</u>	<u>48,000</u>
Net investment in leveraged lease for financial reporting		<u>\$102,000</u>

b. The other temporary difference is for a \$120,000 estimated liability for warranty expense that will result in a tax deduction in year 5 when the liability is expected to be paid. Absent consideration of the deferred tax credits attributable to the leveraged lease, the weight of available evidence indicates that a valuation allowance is needed for the entire amount of the deferred tax asset related to that \$120,000 deductible temporary difference.

c. The tax basis of the investment in the leveraged lease at the end of year 1 is \$41,000. The amount of the deferred tax liability for that leveraged lease that would otherwise result from the requirements of this Statement is determined as follows:

Net rentals receivable plus residual value less unearned pretax income	\$150,000
Temporary difference for deferred ITC	<u>9,000</u>
	141,000
Tax basis of leveraged lease	<u>41,000</u>
Temporary difference	<u>\$100,000</u>
Deferred tax liability (35 percent)	<u>\$ 35,000</u>

d. Loss carryback (to year 2) and loss carryforward (to year 20) of the \$120,000 tax deduction for warranty expense in year 5 would offset the \$100,000 of taxable amounts resulting from future recovery of the net investment in the leveraged lease over the remainder of the lease term.

e. At the end of year 1, the enterprise recognizes a \$42,000 (\$120,000 at 35 percent) deferred tax asset and a related \$7,000 valuation allowance. The effect is to recognize a \$35,000 net deferred tax benefit for the reduction in deferred tax credits attributable to the leveraged lease. Deferred tax credits attributable to the leveraged lease determined under the requirements of Statement 13 are \$39,000. However, the deferred tax liability determined under the requirements of this Statement is only \$35,000. The \$4,000 difference is not available for offsetting.

Business Combinations

259. This Statement requires recognition of deferred tax liabilities and deferred tax assets (and related valuation allowances, if necessary) for the deferred tax consequences of differences between the assigned values and the tax bases of the assets and liabilities recognized in a business combination accounted for as a purchase under Opinion 16. A deferred tax liability or asset is not recognized for a difference between the reported amount and the tax basis of goodwill or the portion thereof for which amortization is not deductible for tax purposes (paragraphs 262 and 263), unallocated "negative" goodwill, and leveraged leases (paragraphs 256-258). Acquired Opinion 23 differences are accounted for in accordance with the requirements of Opinion 23, as amended by this Statement (paragraphs 31-34).

Nontaxable Business Combinations

260. The following example illustrates recognition and measurement of a deferred tax liability and asset in a nontaxable business combination. The assumptions are as follows:

- a.** The enacted tax rate is 40 percent for all future years, and amortization of goodwill is not deductible for tax purposes.
- b.** An enterprise is acquired for \$20,000, and the enterprise has no leveraged leases.
- c.** The tax basis of the net assets acquired is \$5,000, and the assigned value (other than goodwill) is \$12,000. Future recovery of the assets and settlement of the liabilities at their assigned values will result in \$20,000 of taxable amounts and \$13,000 of deductible amounts that can be offset against each other. Therefore, no valuation allowance is necessary.
- The amounts recorded to account for the purchase transaction are as follows:

Assigned value of the net assets (other than goodwill) acquired	\$12,000
Deferred tax liability for \$20,000 of taxable temporary differences	(8,000)
Deferred tax asset for \$13,000 of deductible temporary differences	5,200
Goodwill	10,800
Purchase price of the acquired enterprise	<u>\$20,000</u>

Taxable Business Combinations

261. In a taxable business combination, the purchase price is assigned to the assets and liabilities recognized for tax purposes as well as for financial reporting. However, the amounts assigned to particular assets and liabilities may differ for financial reporting and tax purposes. A deferred tax liability and asset are recognized for the deferred tax consequences of those temporary differences in accordance with the recognition and measurement requirements of this Statement. For example, a portion of the amount of goodwill for financial reporting may be allocated to some other asset for tax purposes, and amortization of that other asset may be deductible for tax purposes. If a valuation allowance is recognized for that deferred tax asset at the acquisition date, recognized benefits for those tax deductions after the acquisition date should be applied (a) first to reduce to zero any goodwill related to that acquisition, (b) second to reduce to zero other noncurrent intangible assets related to that acquisition, and (c) third to reduce income tax expense.

262. Amortization of goodwill is deductible for tax purposes in some tax jurisdictions. In those tax jurisdictions, the reported amount of goodwill and the tax basis of goodwill are each separated into two components as of the combination date for purposes of deferred tax calculations. The first component of each equals the lesser of (a) goodwill for financial reporting or (b) tax-deductible goodwill. The second component of each equals the remainder of each, that is, (1) the remainder, if any, of goodwill for financial reporting or (2) the remainder, if any, of tax-deductible goodwill. Any difference that arises between the book and tax basis of that first component of goodwill in future years is a temporary difference for which a deferred tax liability or asset is recognized based on the requirements of this Statement. No deferred taxes are recognized for the second component of goodwill. If that second component is an excess of tax-deductible goodwill over the reported amount of goodwill, the tax benefit for that excess is recognized when realized on the tax return, and that tax benefit is applied first to reduce to zero the goodwill related to that acquisition, second to reduce to zero other noncurrent intangible assets related to that acquisition, and third to reduce income tax expense.

263. The following example illustrates accounting for the tax consequences of goodwill when amortization of goodwill is deductible for tax purposes. The assumptions are as follows:

- a.** At the combination date, the reported amount and tax basis of goodwill are \$600 and \$800, respectively.

- b.** For tax purposes, amortization of goodwill will result in tax deductions of \$400 in each of years 1 and 2. Those deductions result in a current tax benefit in years 1 and 2.
- c.** For financial reporting, amortization of goodwill is straight-line over years 1-4.
- d.** For purposes of simplification, the consequences of other temporary differences are ignored for years 1-4.
- e.** Income before amortization of goodwill and income taxes in each of years 1-4 is \$1,000.
- f.** The tax rate is 40 percent for all years.

Income taxes payable for years 1-4 are:

	Year			
	1	2	3	4
Income before amortization of goodwill	\$1,000	\$1,000	\$1,000	\$1,000
Amortization of goodwill	400	400	—	—
Taxable income	<u>\$ 600</u>	<u>\$ 600</u>	<u>\$1,000</u>	<u>\$1,000</u>
Income taxes payable (40 percent)	<u>\$ 240</u>	<u>\$ 240</u>	<u>\$ 400</u>	<u>\$ 400</u>

At the combination date, goodwill is separated into two components as follows:

	Reported Amount	Tax Basis
First component	\$600	\$600
Second component	—	200
Total goodwill	<u>\$600</u>	<u>\$800</u>

A deferred tax liability is recognized at the end of years 1-3 for the excess of the reported amount over the tax basis of the first component of goodwill. A deferred tax asset is not recognized for the second component of goodwill; the tax benefit is allocated to reduce goodwill when realized on the tax returns for years 1 and 2.

The second component of goodwill is deductible \$100 per year in years 1 and 2. Those tax deductions provide \$40 (100 at 40 percent) of tax benefits that are realized in years 1 and 2. Allocation of those realized tax benefits to reduce the first component of goodwill produces a deferred tax benefit by reducing the taxable temporary difference related to that component of goodwill. Thus, the total tax benefit allocated to reduce the first component of goodwill in each of years 1 and 2 is the sum of (a) the \$40 realized tax benefit allocated to reduce goodwill and (b) the deferred tax benefit from reducing the deferred tax liability related to goodwill. That total tax benefit (TTB) is determined as follows:

$$\begin{aligned} \text{TTB} &= \text{realized tax benefit plus (tax rate times TTB)} \\ \text{TTB} &= \$40 + (.40 \times \text{TTB}) \\ \text{TTB} &= \$67 \end{aligned}$$

Goodwill for financial reporting for years 1-4 is:

	Year			
	1	2	3	4
Balance at beginning of year	\$600	\$383	\$188	\$94
Amortization:				
\$600 ÷ 4 years	150			
\$383 ÷ 3 years		128		
\$188 ÷ 2 years			94	94
Total tax benefit allocated to reduce goodwill	67	67	—	—
Balance at end of year	<u>\$383</u>	<u>\$188</u>	<u>\$ 94</u>	<u>\$—</u>

■ OFFICIAL RELEASES

The deferred tax liability for the first component of goodwill and the related amount of deferred tax expense (benefit) for years 1-4 are:

	Year			
	1	2	3	4
Reported amount of goodwill at end of year	\$383	\$188	\$ 94	\$ —
Tax basis of goodwill (first component)	300	—	—	—
Taxable temporary difference	<u>\$ 83</u>	<u>\$188</u>	<u>\$ 94</u>	<u>\$ —</u>
Deferred tax liability:				
At end of year (40 percent)	\$ 33	\$ 75	\$ 38	\$ —
At beginning of year	—	33	75	\$ 38
Deferred tax expense (benefit) for the year	<u>\$ 33</u>	<u>\$ 42</u>	<u>\$(37)</u>	<u>\$(38)</u>

Income for financial reporting for years 1-4 is:

	Year			
	1	2	3	4
Income before amortization of goodwill and income taxes	\$1,000	\$1,000	\$1,000	\$1,000
Amortization of goodwill	150	128	94	94
Pretax income	<u>850</u>	<u>872</u>	<u>906</u>	<u>906</u>
Income tax expense (benefit):				
Current	240	240	400	400
Deferred	33	42	(37)	(38)
Benefit applied to reduce goodwill	67	67	—	—
Income tax expense	<u>340</u>	<u>349</u>	<u>363</u>	<u>362</u>
Net income	<u>\$ 510</u>	<u>\$ 523</u>	<u>\$ 543</u>	<u>\$ 544</u>

Carryforwards—Purchase Method

264. Accounting for a business combination should reflect any provisions in the tax law that restrict the future use of either of the combining enterprises' deductible temporary differences or carryforwards to reduce taxable income or taxes payable attributable to the other enterprise subsequent to the business combination. For example, the tax law may limit the use of the acquired enterprise's deductible temporary differences and carryforwards to subsequent taxable income of the acquired enterprise in a consolidated tax return for the combined enterprise. In that circumstance, or if the acquired enterprise will file a separate tax return, the need for a valuation allowance for some portion or all of the acquired enterprise's deferred tax assets for deductible temporary differences and carryforwards is assessed based on the acquired enterprise's *separate* past and expected future results of operations.

265. The following example illustrates (a) recognition of a deferred tax asset and the related valuation allowance for acquired deductible temporary differences at the date of a non-taxable business combination and in subsequent periods when (b) the tax law limits the use of an acquired enterprise's deductible temporary differences and carryforwards to subsequent

taxable income of the acquired enterprise in a consolidated tax return. The assumptions are as follows:

- a. The enacted tax rate is 40 percent for all future years.
- b. The purchase price is \$20,000, and the assigned value of the net assets acquired is also \$20,000.
- c. The tax basis of the net assets acquired is \$60,000. The \$40,000 (\$60,000 - \$20,000) of deductible temporary differences at the combination date is primarily attributable to an allowance for loan losses. Provisions in the tax law limit the use of those future tax deductions to subsequent taxable income of the acquired enterprise.
- d. The acquired enterprise's actual pretax results for the two preceding years and the expected results for the year of the business combination are as follows:

Year 1	\$(15,000)
Year 2	(10,000)
Year 3 to the combination date	(5,000)
Expected results for the remainder of year 3	(5,000)

- e. Based on assessments of all evidence available at the date of the business combination in year 3 and at the end of year 3, management concludes that a valuation allowance is needed at both dates for the entire amount of the deferred tax asset related to the acquired deductible temporary differences.

The acquired enterprise's pretax financial income and taxable income for year 3 (after the business combination) and year 4 are as follows:

	Year 3	Year 4
Pretax financial income	\$15,000	\$10,000
Reversals of acquired deductible temporary differences	(15,000)	(10,000)
Taxable income	<u>\$ —</u>	<u>\$ —</u>

At the end of year 4, the remaining balance of acquired deductible temporary differences is \$15,000 (\$40,000 - \$25,000). The deferred tax asset is \$6,000 (\$15,000 at 40 percent). Based on an assessment of all available evidence at the end of year 4, management concludes that no valuation allowance is needed for that \$6,000 deferred tax asset. Elimination of the \$6,000 valuation allowance results in a \$6,000 deferred tax benefit that is reported as a reduction of deferred income tax expense because there is no goodwill or other noncurrent intangible assets related to the acquisition. For the same reason, tax benefits realized in years 3 and 4 attributable to reversals of acquired deductible temporary differences are reported as a zero current income tax expense. The consolidated statement of earnings would include the following amounts attributable to the acquired enterprise for year 3 (after the business combination) and year 4:

	Year 3	Year 4
Pretax financial income	\$15,000	\$10,000
Income tax expense (benefit):		
Current	—	—
Deferred	—	(6,000)
Net income	<u>\$15,000</u>	<u>\$16,000</u>

266. The tax law in some tax jurisdictions may permit the future use of either of the combining enterprises' deductible temporary differences or carryforwards to reduce taxable income or taxes payable attributable to the other enterprise subsequent to the business combination. If the combined enterprise

expects to file a consolidated tax return, a deferred tax asset (net of a valuation allowance, if necessary) is recognized for deductible temporary differences or carryforwards of either combining enterprise based on an assessment of the combined enterprise's past and expected future results of operations as of the acquisition date. This either reduces goodwill or noncurrent assets (except long-term investments in marketable securities) of the acquired enterprise or creates or increases negative goodwill.

267. The following example illustrates (a) elimination of the need for a valuation allowance for the deferred tax asset for an acquired loss carryforward based on offset against taxable temporary differences of the acquiring enterprise in a nontaxable business combination when (b) the tax law permits use of an acquired enterprise's deductible temporary differences and carryforwards to reduce taxable income or taxes payable attributable to the acquiring enterprise in a consolidated tax return. The assumptions are as follows:

- a.** The enacted tax rate is 40 percent for all future years.
- b.** The purchase price is \$20,000. The tax basis of the identified net assets acquired is \$5,000, and the assigned value is \$12,000, that is, there are \$7,000 of taxable temporary differences. The acquired enterprise also has a \$16,000 operating loss carryforward, which, under the tax law, may be used by the acquiring enterprise in the consolidated tax return.
- c.** The acquiring enterprise has temporary differences that will result in \$30,000 of net taxable amounts in future years.
- d.** All temporary differences of the acquired and acquiring enterprises will result in taxable amounts before the end of the acquired enterprise's loss carryforward period.

In assessing the need for a valuation allowance, future taxable income exclusive of reversing temporary differences and carryforwards (paragraph 21(b)) need not be considered because the \$16,000 operating loss carryforward will offset (a) the acquired enterprise's \$7,000 of taxable temporary differences and (b) another \$9,000 of the acquiring enterprise's taxable temporary differences. The amounts recorded to account for the purchase transaction are as follows:

Assigned value of the identified net assets acquired	\$12,000
Deferred tax liability recognized for the acquired company's taxable temporary differences (\$7,000 at 40 percent)	(2,800)
Deferred tax asset recognized for the acquired loss carryforward based on offset against the acquired company's taxable temporary differences (\$7,000 at 40 percent)	2,800
Deferred tax asset recognized for the acquired loss carryforward based on offset against the acquiring company's taxable temporary differences (\$9,000 at 40 percent)	3,600
Goodwill	4,400
Purchase price of the acquired enterprise	<u>\$20,000</u>

Subsequent Recognition of Carryforward Benefits—Purchase Method

268. If a valuation allowance is recognized for some portion or all of an acquired enterprise's deferred tax asset for deductible temporary differences and operating loss or tax credit carryforwards at the acquisition date, tax benefits for those items recognized in financial statements for a subsequent year(s) are:

- a.** First applied to reduce to zero any goodwill related to the acquisition
- b.** Second applied to reduce to zero other noncurrent intangible

assets related to the acquisition

- c.** Third applied to reduce income tax expense.

Additional amounts of deductible temporary differences and operating loss or tax credit carryforwards may arise after the acquisition date and before recognition of the tax benefit of amounts existing at the acquisition date. Tax benefits are recognized in later years as follows:

- a.** The tax benefit of amounts existing at the acquisition date is first applied to reduce goodwill and other noncurrent intangible assets to zero. Any additional tax benefit reduces income tax expense.
- b.** The tax benefit of amounts arising after the acquisition date is recognized as a reduction of income tax expense.

Whether a tax benefit recognized in later years is attributable to an amount (for example, an operating loss carryforward) existing at or arising after the acquisition date is determined for financial reporting by provisions in the tax law that identify the sequence in which those amounts are utilized for tax purposes. If not determinable by provisions in the tax law, a tax benefit recognized for financial reporting is prorated between a reduction of (a) goodwill and other noncurrent intangible assets and (b) income tax expense.

269. The following example illustrates recognition of tax benefits subsequent to a business combination. The assumptions are as follows:

- a.** A nontaxable business combination occurs on the first day of year 1. Before considering any acquired deferred tax assets, the purchase transaction is summarized as follows:

	Assigned Value	Tax Basis
Net assets acquired	\$5,000	<u>\$6,000</u>
Excess of purchase price over the fair value of the net assets acquired*	1,500	
Purchase price	<u>\$6,500</u>	

*There are no other noncurrent intangible assets.

- b.** The only difference between pretax financial income and taxable income (amortization of goodwill is disregarded for this example) for years 1-3 is a \$1,000 loss for tax purposes in year 1 from disposal of the acquired identified net assets at amounts equal to their \$5,000 assigned value on the acquisition date.

	Year 1	Year 2	Year 3
Pretax financial income (loss)	\$(3,000)	\$2,500	\$1,500
Disposal of acquired identified net assets	(1,000)	—	—
Taxable income (loss) before loss carryforward	(4,000)	2,500	1,500
Loss carryforward (loss carryback not permitted)	4,000	(2,500)	(1,500)
Taxable income after loss carryforward	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

- c.** The tax rate is 40 percent for all years.
- d.** Based on an assessment of all available evidence, management reaches the following conclusions at the acquisition date and at the end of years 1 and 2:
(1) At the acquisition date, the portion of the \$1,000 of deductible temporary differences (\$6,000 - \$5,000) for which it is more likely than not that a tax benefit will not be realized is \$500.

■ OFFICIAL RELEASES

(2) At the end of year 1, the portion of the \$4,000 loss carryforward for which it is more likely than not that a tax benefit will not be realized is \$1,750.

(3) At the end of year 2, it is more likely than not that a tax benefit will be realized for all of the remaining \$1,500 of loss carryforward.

At the acquisition date, a \$400 (\$1,000 at 40 percent) deferred tax asset and a \$200 (\$500 at 40 percent) valuation allowance are recognized. The \$200 net tax benefit reduces the excess of purchase price over the fair value of the net assets acquired from \$1,500 to \$1,300. Thus, the amount of goodwill recognized at the acquisition date is \$1,300.

During year 1, the \$1,000 of net deductible temporary differences at the acquisition date reverse and are part of the \$4,000 loss carryforward for tax purposes at the end of year 1. An analysis of the components of that \$4,000 loss carryforward follows:

	Acquired Deductions	Loss in Year 1	Total
Total loss carryforward	\$1,000	\$3,000	\$4,000
Portion for which a tax benefit was recognized at the acquisition date	500	—	500
Remainder available for recognition of a tax benefit at the end of year 1	\$ 500	\$3,000	\$3,500

Provisions in the tax law do not distinguish between those two components of the \$3,500, and the component that is used first for tax purposes is indeterminable. However, the \$500 of acquired deductions for which a tax benefit has not been recognized is one-seventh of the \$3,500 total, and the \$3,000 loss in year 1 is six-sevenths of the \$3,500 total. The tax benefit of that \$3,500 is prorated one-seventh to reduce goodwill and six-sevenths to reduce income tax expense when recognized in years 1 and 2.

At the end of year 1, a \$1,600 (\$4,000 at 40 percent) deferred tax asset and a \$700 (\$1,750 at 40 percent) valuation allowance are recognized. The tax benefit for the \$700 increase in the net deferred tax asset (from \$200 at the acquisition date to \$900 at the end of year 1) is prorated as follows:

- One-seventh or \$100 to reduce goodwill
- Six-sevenths or \$600 to reduce tax expense.

During year 2, \$1,000 (\$2,500 at 40 percent) of the deferred tax asset recognized at the end of year 1 is realized. In addition, a tax benefit is recognized for the remaining \$1,750 of future tax deductions by eliminating the \$700 valuation allowance. That tax benefit is prorated \$100 to reduce goodwill and \$600 to reduce tax expense. The combined effect of the changes in the deferred tax asset and the related valuation allowance during year 2 is illustrated below:

	Deferred Tax Asset		Tax Expense or (Benefit)
	Year 1	Year 2	
Deferred tax asset	\$1,600	\$600	\$1,000
Valuation allowance	(700)	—	(700)
	<u>\$ 900</u>	<u>\$600</u>	300
Portion of \$700 tax benefit allocated to reduce goodwill			100
Deferred tax expense for year 2			<u>\$ 400</u>

The \$600 deferred tax asset at the end of year 2 is realized in year 3, resulting in \$600 of deferred tax expense for year 3. The consolidated statement of earnings would include the following amounts attributable to the acquired enterprise:

	Year 1	Year 2	Year 3
Pretax financial income (loss)	\$(3,000)	\$2,500	\$1,500
Net deferred tax expense (benefit)	(600)	400	600
Net income (loss)	<u>\$(2,400)</u>	<u>\$2,100</u>	<u>\$ 900</u>

Carryforwards—Pooling-of-Interests Method

270. The separate financial statements of combining enterprises for prior periods are restated on a combined basis when a business combination is accounted for by the pooling-of-interests method. For restatement of periods prior to the combination date, a combining enterprise's operating loss carryforward does not offset the other enterprise's taxable income because consolidated tax returns cannot be filed for those periods. However, provisions in the tax law may permit an operating loss carryforward of either of the combining enterprises to offset combined taxable income subsequent to the combination date.

271. If the combined enterprise expects to file consolidated tax returns, a deferred tax asset is recognized for either combining enterprise's operating loss carryforward in a prior period. A valuation allowance is necessary to the extent it is more likely than not that a tax benefit will not be realized for that loss carryforward through offset of either (a) the other enterprise's deferred tax liability for taxable temporary differences that will reverse subsequent to the combination date or (b) combined taxable income subsequent to the combination date. Determined in that manner, the valuation allowance may be less than the sum of the valuation allowances in the separate financial statements of the combining enterprises prior to the combination date. That tax benefit is recognized as part of the adjustment to restate financial statements on a combined basis for prior periods. The same requirements apply to deductible temporary differences and tax credit carryforwards.

272. A taxable business combination may sometimes be accounted for by the pooling-of-interests method. The increase in the tax basis of the net assets acquired results in temporary differences. The deferred tax consequences of those temporary differences are recognized and measured the same as for other temporary differences. As of the combination date, recognizable tax benefits attributable to the increase in tax basis are allocated to contributed capital. Tax benefits attributable to the increase in tax basis that become recognizable after the combination date (that is, by elimination of a valuation allowance) are reported as a reduction of income tax expense.

Intraperiod Tax Allocation

273. If there is only one item other than continuing operations, the portion of income tax expense or benefit for the year that remains after the allocation to continuing operations is allocated to that item. If there are two or more items other than continuing operations, the amount that remains after the allocation to continuing operations is allocated among those other items in proportion to their individual effects on income tax expense or benefit for the year.

274. The following example illustrates allocation of income tax expense if there is only one item other than income from contin-

uing operations. The assumptions are as follows:

- a. The enterprise's pretax financial income and taxable income are the same.
- b. The enterprise's ordinary loss from continuing operations is \$500.
- c. The enterprise also has an extraordinary gain of \$900 that is a capital gain for tax purposes.
- d. The tax rate is 40 percent on ordinary income and 30 percent on capital gains. Income taxes currently payable are \$120 (\$400 at 30 percent).

Income tax expense is allocated between the pretax loss from operations and the extraordinary gain as follows:

Total income tax expense	\$120
Tax benefit allocated to the loss from operations	(150)
Incremental tax expense allocated to the extraordinary gain	<u>\$270</u>

The effect of the \$500 loss from continuing operations was to offset an equal amount of capital gains that otherwise would be taxed at a 30 percent tax rate. Thus, \$150 (\$500 at 30 percent) of tax benefit is allocated to continuing operations. The \$270 incremental effect of the extraordinary gain is the difference between \$120 of total tax expense and the \$150 tax benefit from continuing operations.

275. The following example illustrates allocation of the tax

benefit of a tax credit carryforward that is recognized as a deferred tax asset in the current year. The assumptions are as follows:

- a. The enterprise's pretax financial income and taxable income are the same.
- b. Pretax financial income for the year comprises \$300 from continuing operations and \$400 from an extraordinary gain.
- c. The tax rate is 40 percent. Taxes payable for the year are zero because \$330 of tax credits that arose in the current year more than offset the \$280 of tax otherwise payable on \$700 of taxable income.
- d. A \$50 deferred tax asset is recognized for the \$50 (\$330 - \$280) tax credit carryforward. Based on the weight of available evidence, management concludes that no valuation allowance is necessary.

Income tax expense or benefit is allocated between pretax income from continuing operations and the extraordinary gain as follows:

Total income tax benefit		\$ (50)
Tax expense (benefit) allocated to income from continuing operations:		
Tax (before tax credits) on \$300 of taxable income at 40 percent	\$120	
Tax credits	(330)	(210)
Tax expense allocated to the extraordinary gain		<u>\$160</u>

APPENDIX E

GLOSSARY

289. This appendix contains definitions of certain terms or phrases used in this Statement.

Carrybacks

Deductions or credits that cannot be utilized on the tax return during a year that may be carried back to reduce taxable income or taxes payable in a prior year. An operating loss carryback is an excess of tax deductions over gross income in a year; a tax credit carryback is the amount by which tax credits available for utilization exceed statutory limitations. Different tax jurisdictions have different rules about whether excess deductions or credits may be carried back and the length of the carryback period.

Carryforwards

Deductions or credits that cannot be utilized on the tax return during a year that may be carried forward to reduce taxable income or taxes payable in a future year. An operating loss carryforward is an excess of tax deductions over gross income in a year; a tax credit carryforward is the amount by which tax credits available for utilization exceed statutory limitations. Different tax jurisdictions have different rules about whether excess de-

ductions or credits may be carried forward and the length of the carryforward period. The terms *carryforward*, *operating loss carryforward*, and *tax credit carryforward* refer to the amounts of those items, if any, reported in the tax return for the current year.

Current tax expense or benefit

The amount of income taxes paid or payable (or refundable) for a year as determined by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues for that year.

Deductible temporary difference

Temporary differences that result in deductible amounts in future years when the related asset or liability is recovered or settled, respectively. Also refer to **Temporary difference**.

Deferred tax asset

The deferred tax consequences attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law. A deferred tax asset is reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Deferred tax consequences

The future effects on income taxes as

measured by the applicable enacted tax rate and provisions of the enacted tax law resulting from temporary differences and carryforwards at the end of the current year.

Deferred tax expense or benefit

The change during the year in an enterprise's deferred tax liabilities and assets. For deferred tax liabilities and assets acquired in a purchase business combination during the year, it is the change since the combination date. Income tax expense or benefit for the year is allocated among continuing operations, discontinued operations, extraordinary items, and items charged or credited directly to shareholders' equity.

Deferred tax liability

The deferred tax consequences attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.

Event

A happening of consequence to an enterprise. The term encompasses both transactions and other events affecting an enterprise.

Gains and losses included in comprehensive income but excluded from net income

Under present practice, gains and losses included in comprehensive income but

Absent the extraordinary gain and assuming it was not the deciding factor in reaching a conclusion that a valuation allowance is not needed, the entire tax benefit of the \$330 of tax credits would be allocated to continuing operations. The presence of the extraordinary gain does not change that allocation.

276. Income taxes are sometimes allocated directly to shareholders' equity. The following example illustrates the allocation of income taxes for translation adjustments under Statement 52 directly to shareholders' equity.

a. A foreign subsidiary has earnings of FC600 for year 2. Its net assets (and unremitted earnings) are FC1,000 and FC1,600 at the end of years 1 and 2, respectively.

b. The foreign currency is the functional currency. For year 2, translated amounts are as follows:

	Foreign Currency	Exchange Rate	Dollars
Unremitted earnings, beginning of year	1,000	FC1 = \$1.20	1,200
Earnings for the year	600	FC1 = \$1.10	660
Unremitted earnings, end of year	1,600	FC1 = \$1.00	1,600

c. A \$260 translation adjustment (\$1,200 + \$660 - \$1,600) is charged to the cumulative translation adjustment account in shareholders' equity for year 2.

d. The U.S. parent expects that all of the foreign subsidiary's unremitted earnings will be remitted in the foreseeable future, and under Opinion 23, a deferred U.S. tax liability is recognized for those unremitted earnings.

e. The U.S. parent accrues the deferred tax liability at a 20 percent tax rate (that is, net of foreign tax credits, foreign tax credit carryforwards, and so forth). An analysis of the net investment in the foreign subsidiary and the related deferred tax liability for year 2 is as follows:

	Net Investment	Deferred Tax Liability
Balances, beginning of year	\$1,200	\$240
Earnings and related taxes	660	132
Translation adjustment and related taxes	(260)	(52)
Balances, end of year	\$1,600	\$320

f. For year 2, \$132 of deferred taxes are charged against earnings, and \$52 of deferred taxes are credited directly to the cumulative translation adjustment account in shareholders' equity.

excluded from net income include certain changes in market values of investments in marketable equity securities classified as noncurrent assets, certain changes in market values of investments in industries having specialized accounting practices for marketable securities, adjustments from recognizing certain additional pension liabilities, and foreign currency translation adjustments. Future changes to generally accepted accounting principles may change what is included in this category.

Income taxes

Domestic and foreign federal (national), state, and local (including franchise) taxes based on income.

Income taxes currently payable (refundable)

Refer to **Current tax expense or benefit**.

Income tax expense (benefit)

The sum of current tax expense (benefit) and deferred tax expense (benefit).

Nonpublic enterprise

An enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with

a regulatory agency in preparation for the sale of any class of securities.

Public enterprise

An enterprise (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Taxable income

The excess of taxable revenues over tax deductible expenses and exemptions for the year as defined by the governmental taxing authority.

Taxable temporary difference

Temporary differences that result in taxable amounts in future years when the related asset or liability is recovered or settled, respectively. Also refer to **Temporary difference**.

Tax consequences

The effects on income taxes—current or deferred—of an event.

Tax-planning strategy

An action (including elections for tax purposes) that meets certain criteria (paragraph 22) and that would be implemented to realize a tax benefit for an op-

erating loss or tax credit carryforward before it expires. Tax-planning strategies are considered when assessing the need for and amount of a valuation allowance for deferred tax assets.

Temporary difference

A difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively. Paragraph 11 cites 8 examples of temporary differences. Some temporary differences cannot be identified with a particular asset or liability for financial reporting (paragraph 15), but those temporary differences (a) result from events that have been recognized in the financial statements and (b) will result in taxable or deductible amounts in future years based on provisions of the tax law. Some events recognized in financial statements do not have tax consequences. Certain revenues are exempt from taxation and certain expenses are not deductible. Events that do not have tax consequences do not give rise to temporary differences.

Valuation allowance

The portion of a deferred tax asset for which it is more likely than not that a tax benefit will not be realized. ■

Worksheet Model for Deferred Income Tax Accounting

By Joyce Allen, CPA, and John Surdick, Ph.D., CPA

Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, require significant disclosures for deferred tax assets and liabilities. For publicly-held companies, adequately documenting the deferred tax accruals that are reported in the financial statements is crucial for meeting auditor and regulatory expectations under the Sarbanes-Oxley Act. Even for privately-held firms that follow GAAP, there are also increasing expectations that companies will have in place enhanced internal control processes and thorough documentation that support financial statement reporting. This article will illustrate a worksheet-based model that can serve as transparent documentation for meeting the accounting requirements of SFAS No. 109.

Statement 109 Accounting Requirements

For balance sheet reporting, SFAS No. 109 requires an enterprise to separate deferred tax liabilities and assets into a current amount and a non-current amount as follows:

- The current amount of the deferred tax assets and liabilities must be netted and presented as a single amount.
- The non-current amount of the deferred tax assets and liabilities must also be netted and presented as a single amount.

In addition, the notes to the financial statements shall disclose the following deferred tax components:

- The total of all deferred tax liabilities,
- The total of all deferred tax assets and
- The total valuation allowance (if any) recognized for deferred tax assets.

SFAS 109 results in deferred tax asset and liability account balances that represent the tax effects of temporary differences between the GAAP basis and the tax basis of assets and liabilities. The GAAP basis of an asset or liability is its reported amount in the financial statements (after adjustment for any nontaxable amounts). The tax basis of an asset or liability is a function of the rules and regulations of the taxing jurisdiction(s). Temporary differences that arise between the book and tax bases of assets and liabilities result in taxable or deductible amounts in future years when the related asset is recovered or liability is settled. SFAS No. 130, Reporting Comprehensive Income, requires that components of other comprehensive income (OCI) also be reported net of related tax effects. Consequently, these OCI-related tax effects also impact the amount of deferred tax assets and liabilities reported in the balance sheet.

Deferred tax amounts are measured by using the enacted tax rates that are expected to apply to taxable income (capital gains, ordinary income, etc.) in the periods in which the deferred tax asset or liability is expected to be recovered or settled. As enacted tax rates or laws change, the balances in the deferred tax asset and liability accounts are adjusted accordingly. If it is more likely than not that a portion of the tax benefits will not be realized, a valuation allowance should be established to reduce the deferred tax asset. Two worksheets will be presented in this article to illustrate the required documentation of the deferred tax amounts to be reported in the financial statements.

Worksheet 1: Tax-basis and Book-basis Comparison

The starting point for developing the deferred income tax disclosures is to identify enterprise assets and liabilities that have a difference in their tax basis and book basis. For illustration purposes, the following five balance sheet accounts will be used:

- Available-for-Sale Securities (current asset),
- Accounts Receivable (current asset),
- Property, Plant and Equipment (noncurrent asset),
- Estimated Warranty Liability (current and noncurrent liability) and
- Postretirement Benefits Other Than Pensions (noncurrent liability).

These five asset and liability accounts are assumed to have been combined with any related contra or adjunct accounts to yield a net tax basis and a net book basis. To compute the amount of the deferred tax asset and deferred tax liability, an average graduated tax rate of 35 percent was used. The five asset and liability accounts are listed in column 1 of Worksheet 1.

Available-for-Sale Securities

In Worksheet 1, the first account is available-for-sale securities, classified as a current asset (rows 3, 4 and 5). The \$3.3 million net tax basis (row 5) in column 2 is the historical cost of the securities. In column 3, the \$3 million net book basis of the securities was measured using the fair value requirements of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Since the book basis is less than the tax basis, a \$300,000 future deductible amount has been created and displayed in column 4. Assuming a 35 percent average graduated tax rate, this will yield a \$105,000 deferred tax asset (column 6).

TAX

RESOURCES AVAILABLE

RECENT TAX ACTS

Get Answers From a TSCPA Discussion Group

In today's complicated tax world, questions may occasionally arise that you simply don't have the answer to, and it can be both frustrating and time consuming to locate the answer. To save you time and energy, TSCPA offers an online discussion group so you can ask your fellow CPAs specific questions about federal and state tax. Our online discussion groups are a great way to tap into timely, expert advice from others in your field. To join our tax discussion group, log into the Members Only section of www.tscpa.com. You can also join discussion groups for personal financial planning and technology. ■

NEWS THE NEW WAY TAX PODCAST AVAILABLE

Receive up-to-date news on the latest federal tax legislation, court cases and other federal tax developments through the TSCPA weekly podcast. This update provides expert analysis and insight and is available for listening at your desk or by downloading to your MP3 player.

Visit www.tscpa.com to access your free tax update podcast today. For more information, contact Sarah Schulz at ssschulz@tscpa.com or 615/377-3825. ■

Market Your Firm for Free!

The Tennessee Society of CPAs' online Find a CPA firm directory allows visitors to search for a CPA by a specialized area of expertise and/or their preferred city. This is a great, FREE way to market your firm in preparation for tax season. A listing in the Find a CPA directory is a free service for TSCPA members, but it is not a complete directory of members – you must choose to add your firm to the database. If your firm is not in our directory, or if you would like to make updates to your firm's existing entry, login to the Members Only section of our Web site at www.tscpa.com/MemberNet/EAC.aspx. Plus, for a small fee, you can add some enhancements to make your listing really stand out. Add a Web site link and/or e-mail address for a one time fee of \$25 per listing. You can also add your logo for just \$25 per listing. Don't miss out on this opportunity to market your firm. Visit www.tscpa.com/MemberNet/EAC.aspx today! ■

TSCPA Dives Into Tax Season to Promote the Profession

As another tax season gets underway, TSCPA will be stepping up media efforts throughout the state by forming media partnerships with television stations, radio stations and newspapers to provide tax hot lines, Q&A columns and timely press releases in all of the major media markets throughout the season. However, in order for our tax season efforts to be successful, we will need your help by participating in the tax hot lines and writing the Q&A columns for local newspapers. We know this is an extremely busy time for all of our tax CPAs, but it's also one of the best opportunities all year for promoting all the profession can offer to the public. If you are interested in volunteering, or if you have any questions, please contact the TSCPA Communications Department at 1-800/762-0272. ■

AICPA Tax Resources Now Available

Members now have access to the AICPA's tax season resources, which include a free brochure, speech and PowerPoint presentation, designed to help clients during tax season. You can use these resources, available in the CPA Marketing Tool Kit, to promote your practice and/or services and increase your visibility in the community. Topics covered in the tax resources include:

- Retirement Plans
- Charitable giving
- "Kiddie Tax"

To access these resources, visit www.aicpa.org/cpamarketing. ■

For more in depth information on these topics and much more, visit our online Tax Resource Center at www.tscpa.com/publicinfo/taxinformation.aspx.

Worksheet 1

Asset and Liability Accounts	Tax Basis 12/31/07	Book Basis 12/31/07	Future Deductible (Taxable) Amount	Tax Rate	Deferred Tax Asset (Liability) 12/31/07
Current Assets					
Available-for-Sale Securities	\$3,300,000	\$3,300,000			
Fair Value Adjustment	\$0	(\$300,000)			
Securities at Fair Value (Net)	\$3,300,000	\$3,000,000	\$300,000	35%	\$105,000
Accounts Receivable	\$9,000,000	\$9,000,000			
Less: Allowance for Doubtful Accounts	\$0	(\$200,000)			
Accounts Receivable (Net)	\$9,000,000	\$8,800,000	\$200,000	35%	\$70,000
Noncurrent Assets					
Property, Plant, and Equipment	\$120,000,000	\$120,000,000			
Less: Accumulated Depreciation	\$55,000,000	(\$30,000,000)			
Property, Plant, and Equipment (Net)	\$65,000,000	\$90,000,000	(\$25,000,000)	35%	(\$8,750,000)
Current Liabilities					
Estimated Warranty Liability	\$0	\$1,000,000	\$1,000,000	35%	\$350,000
Noncurrent Liabilities					
Estimated Warranty Liability	\$0	\$4,000,000	\$4,000,000	35%	\$1,400,000
Postretirement Benefits Other Than Pensions	\$0	\$7,000,000	\$7,000,000	35%	\$2,450,000

Accounts Receivable

The second current asset from Worksheet 1 is accounts receivable (rows 6 and 8). For the amount presented in column 2 (row 8), it was assumed that the enterprise used the direct write-off method when determining the \$9 million tax basis of the receivables. The \$8.8 million book basis (column 3) is the net realizable value computed using the allowance method. Because the book basis is less than the tax basis, this results in a \$200,000 future deductible amount (column 4) and a deferred tax asset of \$70,000 (column 6).

Property, Plant and Equipment

The third account is a non-current asset – property, plant and equipment (rows 10, 11 and 12). The \$65 million net tax basis (column 2 of row 12) was computed using the Modified Accelerated Cost Recovery System (MACRS) and the \$90 million net book basis of the equipment (column 3) was computed using straight-line depreciation. Since the book basis exceeds the tax basis, a \$25 million future taxable amount (column 4) has been created which yields a deferred tax liability of \$8.75 million as reported in column 6.

Estimated Warranty Liability

The estimated warranty liability account has a portion that is classified as a current liability (row 14) and the remainder is classified as a non-current liability (row 16). The tax basis for both the current and non-current portions of the estimated warranty liability is assumed to be zero (column 2) based on non-accrual of warranty obligations under tax regulations. For tax purposes, only current period actual warranty expenditures are deductible. The book basis in both cases was measured using the accrual basis of accounting. Since the \$1 million book basis of the current liability portion (row 14, column 3) exceeds the tax basis of zero, a \$1 million future deductible amount has been created (column 4), generating a deferred tax asset of \$350,000 (column 6). Likewise, the \$4 million book basis of the non-current liability portion (row 16, column 3) yielded a \$4 million future deductible amount (column 4), resulting in a deferred tax asset of \$1.4 million (column 6).

Postretirement Benefits Other Than Pensions

The final account (row 17) listed in Worksheet 1 is a non-current liability, postretirement benefits other than pensions (OPEB). Tax regulations do not permit accrual of OPEB costs but require that deductions be based only on actual funding during the period. Therefore,

the tax basis is zero (column 2). The \$7 million book basis (column 3) was accrued using the guidance of SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. Since the book basis of the liability exceeds the tax basis, a \$7 million future deductible amount has been created (column 4), yielding a deferred tax asset of \$2.45 million (column 6).

Worksheet 2: Deferred Tax Accounts

Column 6 of Worksheet 1 lists the six deferred tax asset or liability account balances that were created as of Dec. 31, 2007. These six deferred tax account balances must now be appropriately classified, combined and netted in order to satisfy the disclosure and financial statement presentation requirements of SFAS No. 109. To document these financial statement disclosures, a deferred tax disclosure model was developed and is presented as Worksheet 2.

The four deferred tax account categories specified by SFAS No. 109 and their location in Worksheet 2 are:

- Current Deferred Tax Assets, Row 2
- Deferred Tax Liabilities, Row 7
- Non-Current Deferred Tax Assets, Row 12
- Non-Current Deferred Tax Liabilities, Row 17

These four categories are displayed in column 1 of Worksheet 2. Column 2 of Worksheet 2 contains the deferred tax account balances at Dec. 31, 2007 that were transferred from column 6 of Worksheet 1.

When transferring the deferred tax account ending balances from Worksheet 1 (column 6) to Worksheet 2 (column 2), a two-step process must take place. First, if the dollar amount is not in parentheses, it is categorized as a deferred tax asset account. On the other hand, if there are parentheses around the dollar amount, it will be categorized as a deferred tax liability account. Second, for each deferred tax asset and liability listed in column F of Worksheet 1, the classification of the balance sheet account in column 1 must be noted. If the account was a current asset or liability, then the resulting deferred tax account will be classified as current. Alternatively, if the account was a non-current asset or liability, the deferred tax account will likewise be classified as non-current. Column 3 of Worksheet 2 contains the assumed deferred tax account balances at Dec. 31, 2006 that were carried forward from last year's worksheet.

continued on page 22

Worksheet 2

Tax Accrual Journal Entry

Based on the documentation developed in the worksheets, the data needed for preparing the tax accrual journal entry can be readily found in columns 4, 5 and 6 of Worksheet 2. This worksheet provides the detailed documentation to support the preparation of the tax accrual journal entry that is needed for financial reporting disclosure of deferred taxes and related elements of comprehensive income. Column 4 represents the change in the deferred tax accounts which is determined by subtracting column 3 from column B. If the amount in column 4 is not in parentheses, it will result in a debit to a deferred tax account and a corresponding credit to either Income Tax Expense - Deferred (column 5) or Other Comprehensive Income (column 6). On the other hand, if the amount in column D is in parentheses, it will result in a credit to a deferred tax account and a corresponding debit to either Income Tax Expense - Deferred (column 5) or Other Comprehensive Income (column 6). Row 24 of Worksheet 2 displays the aggregate amounts that will be used in the tax accrual journal entry and would appear as follows:

- Income Tax Expense - Deferred (column 5) \$1,555,000
- Deferred Tax Liability (column 4) \$1,413,000
- Other Comprehensive Income (column 6) \$142,000

The presentation in Worksheet 2 is generalizable to a variety of accounting information system designs. Consequently, for those accountants that prefer not to prepare one aggregate journal entry, appropriate deferred tax journal entries can be generated that correspond to any level of detail that is found in the general ledger chart of accounts.

The choice between debiting or crediting Income Tax Expense - Deferred or Other Comprehensive Income depends on the guidance contained in FASB statements and other authoritative

literature comprising generally accepted accounting principles. For the examples presented in this article, it was presumed that any uncertain tax positions have met the "more likely than not" recognition criteria specified by FASB Interpretation No. 48 and will be sustained upon examination.

Summary

SFAS No. 109 requires significant disclosures in the financial statements related to the reporting of deferred income taxes. This article illustrated a worksheet model that can serve as detailed documentation to support transparent disclosure of deferred tax assets and liabilities. In addition, the data developed in the worksheets easily facilitates the preparation of the tax accrual journal entry.

References

Financial Accounting Standards Board,
"Employers' Accounting for Postretirement

Benefits Other Than Pensions," *Statement of Financial Accounting Standards No. 106*, December, 1990.

Financial Accounting Standards Board,
"Accounting for Income Taxes," *Statement of Financial Accounting Standards No. 109*, February, 1992.

Financial Accounting Standards Board,
"Accounting for Certain Investments in Debt and Equity Securities," *Statement of Financial Accounting Standards No. 115*, May, 1993.

Financial Accounting Standards Board, "Reporting Comprehensive Income," *Statement of Financial Accounting Standards No. 130*, June, 1997.

Financial Accounting Standards Board,
"Accounting for Uncertainty in Income Taxes, An Interpretation of FASB Statement No. 109," *FASB Interpretation No. 48*, June 2006. ■

About the Authors:

Joyce S. Allen, MBA, CPA is an associate professor at Xavier University. She can be reached at allenj@xavier.edu. John J. Surdick, Ph.D., CPA is a professor at Xavier University. He can be reached at surdick@xavier.edu.

Deferred Tax Accounts	Deferred Tax Account Balances at 12/31/07	Deferred Tax Account Balances at 12/31/06	Debit or (Credit) Change in Deferred Tax Accounts	Debit or (Credit) to Income Tax Expense--Deferred	Debit or (Credit) to Other Comprehensive Income
Current Deferred Tax Assets					
Securities at Fair Value (Net)	\$105,000	\$0	\$105,000		(\$105,000)
Accounts Receivable (Net)	\$70,000	\$65,000	\$5,000	(\$5,000)	
Estimated Warranty Liability	\$350,000	\$310,000	\$40,000	(\$40,000)	
Total Current Deferred Tax Assets	\$525,000	\$375,000			
Current Deferred Tax Liabilities					
Securities at Fair Value (Net)	\$0	(\$37,000)	\$37,000		(\$37,000)
Total Current Deferred Tax Liabilities	\$0	(\$37,000)			
Net Current Deferred Tax Assets (Liabilities)	\$525,000	\$338,000			
Noncurrent Deferred Tax Assets					
Estimated Warranty Liability	\$1,400,000	\$1,220,000	\$180,000	(\$180,000)	
Postretirement Benefits Other Than Pensions*	\$2,450,000	\$2,880,000	(\$430,000)	\$430,000	
Less: Valuation Allowance	(\$750,000)	(\$800,000)	\$50,000	(\$50,000)	
Total Noncurrent Deferred Tax Assets	\$3,100,000	\$3,300,000			
Noncurrent Deferred Tax Liabilities					
Property, Plant, and Equipment (Net)	(\$8,750,000)	(\$7,350,000)	(\$1,400,000)	\$1,400,000	
Total Noncurrent Deferred Tax Liabilities	(\$8,750,000)	(\$7,350,000)			
Net Noncurrent Deferred Tax Assets (Liabilities)	(\$5,650,000)	(\$4,050,000)			
Total Deferred Tax Assets	\$3,625,000	\$3,675,000			
Total Deferred Tax Liabilities	(\$8,750,000)	(\$7,387,000)			
Total Net Deferred Tax Assets (Liabilities)	(\$5,125,000)	(\$3,712,000)	(\$1,413,000)	\$1,555,000	(\$142,000)

Statement of Financial Accounting Standards No. 71

FAS71 Status Page
FAS71 Summary

Accounting for the Effects
of Certain Types of Regulation

December 1982



Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

Copyright © 1982 by Financial Accounting Standards Board. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the Financial Accounting Standards Board.

Statement of Financial Accounting Standards No. 71

Accounting for the Effects of Certain Types of Regulation

December 1982

CONTENTS

	Paragraph Numbers
Introduction	1-4
Standards of Financial Accounting and Reporting:	
Scope	5-8
General Standards of Accounting for the Effects of Regulation	9-3
Specific Standards Derived from the General Standards	14-17
Allowance for Funds Used during Construction	15
Intercompany Profit	16-17
Other Specific Standards	18-20
Accounting for Income Taxes	18
Other Disclosure	19-20
Amendments to Existing Pronouncements	21
Effective Date and Transition	22-24
Appendix A: Amendments to Existing Pronouncements	25-26
Appendix B: Application of General Standards to Specific Situations	27-49
Appendix C: Basis for Conclusions	50-120
Appendix D: Background Information	121-124

FAS 71: Accounting for the Effects of Certain Types of Regulation

FAS 71 Summary

This Statement provides guidance in preparing general purpose financial statements for most public utilities. Certain other companies with regulated operations that meet specified criteria are also covered.

In general, the type of regulation covered by this Statement permits rates (prices) to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital (interest costs and a provision for earnings on shareholders' investments).

For a number of reasons, revenues intended to cover some costs are provided either before or after the costs are incurred. If regulation provides assurance that incurred costs will be recovered in the future, this Statement requires companies to capitalize those costs. If current recovery is provided for costs that are expected to be incurred in the future, this Statement requires companies to recognize those current receipts as liabilities.

This Statement also requires recognition, as costs of assets and increases in net income, of two types of allowable costs that include amounts not usually accepted as costs in the present accounting framework for nonregulated enterprises, as follows:

- If rates are based on allowable costs that include an allowance for the cost of funds used during construction (consisting of an equity component and a debt component), the company should capitalize and increase net income by the amount used for rate-making purposes—instead of capitalizing interest in accordance with FASB Statement No. 34, *Capitalization of Interest Cost*.
- If rates are based on allowable costs that include reasonable intercompany profits, the company should not eliminate those intercompany profits in its financial statements.

Pending completion of the Board's current project on accounting for income taxes, this Statement continues current practices of most utilities with respect to accounting for deferred income taxes. Accordingly, if the current income tax benefits (or costs) of timing differences are passed through to customers in current prices and it is probable that any resulting income taxes

payable in future years will be recovered through future rates, the company should not record deferred income taxes resulting from those timing differences. However, the company should disclose the cumulative net amounts of timing differences for which deferred taxes have not been recorded.

This Statement may require that a cost be accounted for in a different manner from that required by another authoritative pronouncement. In that case, this Statement is to be followed because it reflects the economic effects of the rate-making process—effects not considered in other authoritative pronouncements. All other provisions of that other authoritative pronouncement apply to the regulated enterprise.

This Statement clarifies the application of certain other authoritative pronouncements, which is expected to result in at least two changes in general-purpose financial statements of certain public utilities. First, expected refunds of revenue collected in prior years will be charged to income in the period in which those refunds are first recognized. Second, leases will be classified (as capital or operating leases) in accordance with FASB Statement No. 13, *Accounting for Leases*, as amended. Because Statement 13 has not been applied by some utilities in the past, this Statement provides a four-year transition period before retroactive application of lease capitalization is required. Statement 13 provided a similar transition period for unregulated enterprises.

INTRODUCTION

1. Regulation of an enterprise's prices (hereinafter referred to as *rates*) is sometimes based on the enterprise's costs. Regulators use a variety of mechanisms to estimate a regulated enterprise's allowable costs,¹ and they allow the enterprise to charge rates that are intended to produce revenue approximately equal to those allowable costs. Specific costs that are allowable for rate-making purposes result in revenue approximately equal to the costs.
2. In most cases, allowable costs are used as a means of estimating costs of the period during which the rates will be in effect, and there is no intent to permit recovery of specific prior costs. The process is a way of setting prices—the results of the process are reported in general-purpose financial statements in accordance with the same accounting principles that are used by unregulated enterprises.
3. Regulators sometimes include costs in allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated enterprise. That procedure can create assets (future cash inflows that will result from the rate-making process), reduce assets (reductions of future cash inflows that will result from the rate-making process), or create liabilities (future cash outflows that will result from the rate-making process) for the regulated enterprise. For general-purpose financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement-type contract.

4. Accounting requirements that are not directly related to the economic effects of rate actions may be imposed on regulated businesses by orders of regulatory authorities and occasionally by court decisions or statutes. This does not necessarily mean that those accounting requirements conform with generally accepted accounting principles. For example, a regulatory authority may order an enterprise to capitalize² and amortize a cost that would be charged to income currently by an unregulated enterprise. Unless capitalization of that cost is appropriate under this Statement, generally accepted accounting principles require the regulated enterprise to charge the cost to income currently.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

5. This Statement applies to general-purpose external financial statements of an enterprise that has regulated operations that meet all of the following criteria:

- a. The enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.³
- b. The regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
- c. In view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. This criterion requires consideration of anticipated changes in levels of demand or competition during the recovery period for any capitalized costs.

6. If some of an enterprise's operations are regulated and meet the criteria of paragraph 5, this Statement shall be applied to only that portion of the enterprise's operations.

7. Authoritative accounting pronouncements that apply to enterprises in general also apply to regulated enterprises. However, enterprises subject to this Statement shall apply it instead of any conflicting provisions of standards in other authoritative pronouncements.⁴

8. This Statement does not apply to accounting for price controls that are imposed by governmental action in times of emergency, high inflation, or other unusual conditions. Nor does it cover accounting for contracts in general. However, if the terms of a contract between an enterprise and its customer are subject to regulation and the criteria of paragraph 5 are met with

respect to that contract, this Statement shall apply.

General Standards of Accounting for the Effects of Regulation

9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost ⁵ that would otherwise be charged to expense if both of the following criteria are met:

- a. It is probable ⁶ that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.
- b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

10. Rate actions of a regulator can reduce or eliminate the value of an asset. If a regulator excludes all or part of a cost from allowable costs and it is not probable that the cost will be included as an allowable cost in a future period, the cost cannot be expected to result in future revenue through the rate-making process. Accordingly, the carrying amount of any related asset shall be reduced to the extent that the asset has been impaired. Whether the asset has been impaired shall be judged the same as for enterprises in general.

11. Rate actions of a regulator can impose a liability on a regulated enterprise. Such liabilities are usually obligations to the enterprise's customers. The following are the usual ways in which liabilities can be imposed and the resulting accounting:

- a. A regulator may require refunds to customers.⁷ Refunds that meet the criteria of paragraph 8 (accrual of loss contingencies) of FASB Statement No. 5, *Accounting for Contingencies*, shall be recorded as liabilities and as reductions of revenue or as expenses of the regulated enterprise.
- b. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs and the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose,⁸ the enterprise shall not recognize as revenues amounts charged pursuant to such rates. Those amounts shall be recognized as liabilities and taken to income only when the associated costs are incurred.
- c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. That would be accomplished, for rate-making purposes, by

amortizing the gain or other reduction of net allowable costs over those future periods and reducing rates to reduce revenues in approximately the amount of the amortization. If a gain or other reduction of net allowable costs is to be amortized over future periods for rate-making purposes, the regulated enterprise shall not recognize that gain or other reduction of net allowable costs in income of the current period. Instead, it shall record it as a liability for future reductions of charges to customers that are expected to result.

12. Actions of a regulator can eliminate a liability only if the liability was imposed by actions of the regulator.

13. Appendix B illustrates the application of the general standards of accounting for the effects of regulation.

Specific Standards Derived from the General Standards

14. The following specific standards are derived from the general standards in paragraphs 9-12. The specific standards shall not be used as guidance for other applications of those general standards.

Allowance for Funds Used during Construction

15. In some cases, a regulator requires an enterprise subject to its authority to capitalize, as part of the cost of plant and equipment, the cost of financing construction as financed partially by borrowings and partially by equity. A computed interest cost and a designated cost of equity funds are capitalized, and net income for the current period is increased by a corresponding amount. After the construction is completed, the resulting capitalized cost is the basis for depreciation and unrecovered investment for rate-making purposes. In such cases, the amounts capitalized for rate-making purposes as part of the cost of acquiring the assets shall be capitalized for financial reporting purposes instead of the amount of interest that would be capitalized in accordance with FASB Statement No. 34, *Capitalization of Interest Cost*.⁹ The income statement shall include an item of other income, a reduction of interest expense, or both, in a manner that indicates the basis for the amount capitalized.

Intercompany Profit¹⁰

16. Profit on sales to regulated affiliates shall not be eliminated in general-purpose financial statements¹¹ if both of the following criteria are met:

- a. The sales price is reasonable.
- b. It is probable that, through the rate-making process, future revenue approximately equal to the sales price will result from the regulated affiliate's use of the products.

17. The sales price usually shall be considered reasonable if the price is accepted or not challenged by the regulator that governs the regulated affiliate. Otherwise, reasonableness shall

be considered in light of the circumstances. For example, reasonableness might be judged by the return on investment earned by the manufacturing or construction operations or by a comparison of the transfer prices with prices available from other sources.

Other Specific Standards

Accounting for Income Taxes

18. Items of revenue and expense are sometimes taxable or deductible in periods other than the periods in which those items are recognized for financial reporting purposes. In some cases, a regulator does not include the income tax effect of certain transactions in allowable costs in the period in which the transactions are reported but includes income taxes related to those transactions in allowable costs in the period in which the taxes become payable. In such cases, if it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on taxes payable at that time, the enterprise shall record neither the deferred income taxes¹² that result from those timing differences nor the related asset (the probable future benefits that will result from payment of the taxes). However, the enterprise shall disclose the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided. That disclosure supplements the requirements of paragraph 63 of Opinion 11 for disclosure of operating loss carryforwards, significant amounts of other unused deductions or credits, and reasons for significant variations in the customary relationships between income tax expense and pretax accounting income. Except as provided in this paragraph, regulated enterprises shall apply the requirements of Opinion 11.

Other Disclosure

19. For refunds that are recognized in a period other than the period in which the related revenue was recognized and that have a material effect on net income, the enterprise shall disclose the effect on net income and indicate the years in which the related revenue was recognized. Such effect may be disclosed by including it, net of related income taxes, as a line item in the income statement. However, that item shall not be presented as an extraordinary item.

20. In some cases, a regulator may permit an enterprise to include a cost that would be charged to expense by an unregulated enterprise as an allowable cost over a period of time by amortizing that cost for rate-making purposes, but the regulator does not include the unrecovered amount in the rate base. That procedure does not provide a return on investment during the recovery period. If recovery of such major costs is provided without a return on investment during the recovery period, the enterprise shall disclose the remaining amounts of such assets and the remaining recovery period applicable to them.

Amendments to Existing Pronouncements

21. Appendix A lists the amendments to existing pronouncements that result from this Statement.

Effective Date and Transition

22. This Statement shall be effective for fiscal years beginning after December 15, 1983. Earlier application is encouraged. Accounting changes adopted to conform to the provisions of this Statement shall be applied retroactively, except that:

- a. Previously issued financial statements shall not be restated for changes in accounting for refunds.
- b. Leases for which the inception ¹³ is after December 31, 1982 shall be classified in accordance with FASB Statement No. 13, *Accounting for Leases*, in financial statements commencing with initial application of this Statement. Leases for which the inception of the lease is before January 1, 1983 may be classified as they would have been classified before this Statement was issued until fiscal years beginning after December 15, 1986. Commencing no later than the first fiscal year beginning after December 15, 1986, those leases shall be retroactively classified in accordance with Statement 13 as amended.

23. If leases are not retroactively classified in accordance with Statement 13 in financial statements for fiscal years beginning after December 15, 1983 and before December 15, 1986 as permitted by paragraph 22(b), lessees shall disclose the amounts of additional capitalized leased assets and lease obligations that would be included in each balance sheet presented if Statement 13 had been applied retroactively.

24. In the year that this Statement is first applied, the financial statements shall disclose the nature of any restatement and its effect on income before extraordinary items, net income, and related per-share amounts ¹⁴ for each year restated. If retroactive restatement of all years presented is not practicable, the financial statements shall be restated for as many consecutive years as is practicable, and the cumulative effect of applying this Statement shall be included in determining net income of the earliest year restated (not necessarily the earliest year presented). If it is not practicable to restate any prior year, the cumulative effect shall be included in net income in the year in which this Statement is first applied. (See paragraph 20 of APB Opinion No. 20, *Accounting Changes*.) The effect on income before extraordinary items, net income, and related per-share amounts ¹⁵ of applying this Statement in a year in which the cumulative effect is included in determining that year's net income shall be disclosed for that year.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Block, Kirk, and Sprouse dissented.

Mr. Block dissents to the issuance of this Statement. He believes that the regulatory environment as it exists today does not provide the necessary assurance of realization of future revenues to justify the standards in this Statement.

In his opinion, the creation of an asset by a regulator requires, at a minimum, an exclusive franchise to deliver goods and services for which demand is insensitive to price. This means that the goods and services must be necessities and that no alternative goods and services exist as competition. Further, the creation of long-lived assets requires assurance that the regulatory environment will remain unchanged for long periods. The nature of assets created by a regulator (future amounts receivable from customers) would appear to require assurance that the customers will exist, the goods and services will be delivered to customers, and the customers will pay the decreed rates. Mr. Block does not believe that rate regulators can provide such assurances in the industries to which this Statement is likely to be applied. Because of those beliefs, Mr. Block concludes that the rate-making process should have no bearing on principles for cost capitalization and loss recognition. Those principles should be the same for rate-regulated enterprises as they are for unregulated enterprises.

Mr. Block further believes that the assets created by regulation under this Statement are merely future accounts receivable for future sales. While he is opposed to recognizing such receivables, he notes that APB Opinion No. 21, *Interest on Receivables and Payables*, requires discounting of long-term receivables on which there is no stated interest rate or the stated rate is unreasonable. Thus, in his view, if such receivables are to be recognized, discounting at market rates of return should be required.

Mr. Kirk dissents to the issuance of this Statement because he believes the immediate increases in income resulting from the capitalization of costs imputed for equity funds used during construction (paragraph 15) and intercompany profit (paragraphs 16 and 17) are not valid reflections of the economics of rate regulation or in accordance with other generally accepted accounting principles. Unlike other allowable costs, imputed costs have not been incurred. In Mr. Kirk's opinion, even if capitalization is deemed appropriate for financial reporting purposes, income should not be recognized. The income related to allowable but imputed costs should be recognized when the rates covering the costs are charged to customers, not before.

Mr. Sprouse dissents primarily because he does not agree with the thrust of paragraph 11 related to liabilities. He agrees that a regulator can impose a liability on a regulated enterprise by requiring the enterprise to make refunds to its customers (paragraph 11(a)). In his opinion, however, "refunds" involve reductions in existing assets—either cash settlements or lump-sum deductions from the amounts due from customers. Reductions in future rates do not "refund" anything and, therefore, do not create a liability. Indeed, reductions in future rates do not obligate a regulated enterprise to transfer assets or use them in any way that would not be required in the absence of those reductions. Of course, a sufficiently severe reduction in future rates might trigger the need to recognize impairment of assets.

In Mr. Sprouse's view, paragraph 11(b) tends to confuse the use of a formula that a

regulator might properly use to set reasonably stable rates with real, often sporadic, economic events, the effects of which should be recognized in financial statements if and when they have actually occurred. In setting rates, a regulator may include a "provision for noninsurance" among the allowable costs, but that does not create a present obligation to repair unusual storm damage that has not yet occurred (paragraphs 11(b), 38, and 39). If over a period of time the amounts of uninsured losses are sufficiently less than the "provisions for noninsurance" included in allowable costs, the regulator may reduce or eliminate future allowed provisions and reduce rates accordingly. As explained in the previous paragraph, however, possible future rate reductions do not create a liability. The possibility that sometime in the future the regulator might require cash refunds to customers to reduce or eliminate the cumulative "provision for noninsurance" is too remote to be recognized as a liability.

Similarly, in a formula designed to maintain reasonably stable rates, a regulatory agency may wish to spread a gain on early extinguishment of debt over some arbitrary period, but that does not create a present obligation for the regulated enterprise to transfer assets or to use them in any way that would not be required in the absence of such a gain (paragraphs 11(c) and 35-37).

Mr. Sprouse does agree that, to the extent that there is adequate evidence that the rates set by a regulator will cause a specific cost or other amount to be recovered through future incremental revenues, the regulated enterprise has an asset or asset enhancement (a quasi-receivable) that is properly measured by that incurred cost or other amount. Accordingly, he agrees that those circumstances may call for capitalizing (a) unusual storm losses, property abandonments, plant conversions, and similar costs that have occurred (paragraph 9); (b) an imputed cost of equity funds (paragraph 15); and (c) intercompany profits included in transfer prices to affiliates (paragraphs 16 and 17).

Messrs. Kirk and Sprouse also dissent because they believe the amendment to APB Opinion 30 in paragraph 19 of this Statement that suggests that refunds be reported in income net of taxes but not as extraordinary items is unrelated to the economics of rate regulation and therefore inappropriate. They see no reason why a potentially recurring charge to income should be singled out from all other recurring or even unusual items for this special treatment.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix A: AMENDMENTS TO EXISTING PRONOUNCEMENTS

25. This Statement supersedes the Addendum, *Accounting Principles for Regulated Industries*, to APB Opinion 2.

26. Paragraph 7 provides for this Statement to be applied by enterprises that are subject to it instead of conflicting provisions of other authoritative pronouncements. The Board sees no need for references to this Statement in either existing pronouncements or future authoritative pronouncements. That conclusion requires the following amendments to existing pronouncements:

- a. ARB No. 44 (Revised), *Declining-Balance Depreciation*, as amended by APB Opinion No. 6, *Status of Accounting Research Bulletins*. Delete paragraphs 8 and 9.
- b. ARB 51. Delete the last sentence of paragraph 6.
- c. APB Opinion No. 1, *New Depreciation Guidelines and Rules*. Delete paragraph 7.
- d. APB Opinion No. 2, *Accounting for the "Investment Credit."* Delete paragraph 17.
- e. APB Opinion 11. In the second sentence of paragraph 6, delete the words "(a) to regulated industries in those circumstances where the standards described in the Addendum (which remains in effect) to APB Opinion No. 2 are met and (b)."
- f. APB Opinion No. 16, *Business Combinations*. Delete paragraph 6.
- g. APB Opinion No. 17, *Intangible Assets*. Delete paragraph 7.
- h. APB Opinion 20. Delete the last two sentences of paragraph 3.
- i. APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*. Delete paragraph 4.
- j. APB Opinion No. 24, *Accounting for Income Taxes*. Delete paragraph 3.
- k. APB Opinion No. 26, *Early Extinguishment of Debt*. Delete the last sentence of paragraph 2.
- l. APB Opinion No. 29, *Accounting for Nonmonetary Transactions*. In the first sentence following subparagraph 4(d), delete the words "applies to regulated companies in accordance with the Addendum to APB Opinion No. 2, *Accounting for the Investment Credit*, 1962 and it."
- m. FASB Statement No. 2, *Accounting for Research and Development Costs*. Delete paragraph 14.
- n. FASB Statement No. 4, *Reporting Gains and Losses from Extinguishment of Debt*. Delete paragraph 7.
- o. FASB Statement 5. Delete paragraph 13.
- p. FASB Statement No. 7, *Accounting and Reporting by Development Stage Enterprises*. Delete the second sentence of paragraph 5.
- q. FASB Statement 13. Delete paragraph 3.
- r. FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*. Delete paragraph 9.

- s. FASB Statement No. 16, *Prior Period Adjustments*. Delete paragraph 9.
- t. FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. Delete paragraph 9.
- u. FASB Statement No. 22, *Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt*. Delete paragraph 11.
- v. FASB Statement 34. Delete paragraph 5.
- w. FASB Statement No. 43, *Accounting for Compensated Absences*. Delete paragraph 3.
- x. FASB Statement No. 49, *Accounting for Product Financing Arrangements*. Delete paragraph 7.
- y. FASB Statement No. 51, *Financial Reporting by Cable Television Companies*. Delete paragraph 2.
- z. FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*. Delete paragraph 4.
- aa. FASB Interpretation No. 22, *Applicability of Indefinite Reversal Criteria to Timing Differences*. Delete paragraph 8.
- bb. FASB Interpretation No. 25, *Accounting for an Unused Investment Tax Credit*. Delete paragraph 9.

Appendix B: APPLICATION OF GENERAL STANDARDS TO SPECIFIC SITUATIONS

27. This appendix provides guidance for application of this Statement to some specific situations. The guidance does not address all possible applications of this Statement. All of the examples assume that the enterprise meets the criteria in paragraph 5 of this Statement; thus, recovery of any cost is probable if that cost is designated for future recovery by the regulator. The examples also assume that the items addressed are material. The provisions of this Statement need not be applied to immaterial items.

28. Specific situations discussed in this appendix are:

	Paragraph Numbers
Intangible assets	29-30
Accounting changes	31-32
Recovery of costs without return on investment	33-34
Early extinguishment of debt	35-37
Accounting for contingencies	38-39
Accounting for leases	40-43
Revenue collected subject to refund	44-45
Refunds to customers	46-47
Accounting for compensated absences	48-49

Intangible Assets

29. Opinion 17 requires that the cost of an intangible asset acquired after October 30, 1970 be amortized over the shorter of its estimated useful life or 40 years. That Opinion also requires that a company continually evaluate the period of amortization to determine whether later events and circumstances warrant a revised estimate of the useful life and whether the unamortized cost should be reduced significantly by a charge to income. For rate-making purposes, a regulator may permit an enterprise to amortize purchased goodwill over a specified period. In other cases, a regulator may direct an enterprise not to amortize goodwill acquired in a business combination after October 30, 1970 or to write off that goodwill.

30. If the regulator permits the goodwill to be amortized over a specific time period as an allowable cost for rate-making purposes, the regulator's action provides reasonable assurance of the existence of an asset (paragraph 9). The goodwill would then be amortized for financial reporting purposes over the period during which it will be allowed for rate-making purposes. If the regulator excludes amortization of goodwill from allowable costs for rate-making purposes, either by not permitting amortization or by directing the enterprise to write off the goodwill, the value of the goodwill may be reduced or eliminated (paragraph 10). If there is no indication that the amortization will be allowed in a subsequent period, the goodwill would be amortized for financial reporting purposes and continually evaluated to determine whether the unamortized cost should be reduced significantly by a charge to income in accordance with Opinion 17.

Accounting Changes

31. Opinion 20 defines various types of accounting changes and establishes guidelines for reporting each type. Other authoritative pronouncements specify the manner of reporting initial application of those pronouncements.

32. If a regulated enterprise changes accounting methods and the change does not affect costs that are allowable for rate-making purposes, the regulated enterprise would apply the change in the same manner as would an unregulated enterprise. Capitalization of leases with no income statement effect (paragraphs 40-43) is an example of that type of change. If a regulated enterprise changes accounting methods and the change affects allowable costs for rate-making purposes, the change generally would be implemented in the way that it is implemented for regulatory purposes. A change in the method of accounting for research and development costs, either from a policy of capitalization and amortization to one of charging those costs to expense as incurred or vice versa, is an example of that type of change.

Recovery of Costs without Return on Investment

33. In some cases, a regulator may approve rates that are intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period.

34. The regulator's action provides reasonable assurance of the existence of an asset (paragraph 9). Accordingly, the regulated enterprise would capitalize the cost and amortize it over the period during which it will be allowed for rate-making purposes. That cost would not be recorded at discounted present value. If the amounts are material, the disclosures specified in paragraph 20 of this Statement would be furnished.

Early Extinguishment of Debt

35. Opinion 26 requires recognition in income of a gain or loss on an early extinguishment of debt in the period in which the debt is extinguished. For rate-making purposes, the difference between the enterprise's net carrying amount of the extinguished debt and the reacquisition price may be amortized as an adjustment of interest expense over some future period.

36. If the debt is reacquired for an amount in excess of the enterprise's net carrying amount, the regulator's decision to increase future rates by amortizing the difference for rate-making purposes provides reasonable assurance of the existence of an asset (paragraph 9). Accordingly, the regulated enterprise would capitalize the excess cost and amortize it over the period during which it will be allowed for rate-making purposes.

37. If the debt is reacquired for an amount that is less than the enterprise's net carrying amount, the regulator's decision to reduce future rates by amortizing the difference for rate-making purposes imposes a liability on the regulated enterprise (paragraph 11(c)). Accordingly, the enterprise would record the difference as a liability and amortize it over the period during which permitted rates will be reduced.

Accounting for Contingencies

38. Statement 5 specifies criteria for recording estimated losses from loss contingencies. A regulator may direct a regulated enterprise to include an amount for a contingency in allowable costs for rate-making purposes even though the amount does not meet the criteria of Statement 5 for recording. For example, a regulator may direct a regulated enterprise to include an amount for repairs of expected future uninsured storm damage.

39. If the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the resulting increased charges to customers create a liability (paragraph 11(b)). If a cost to repair storm damage is not subsequently incurred, the increased charges will have to be refunded to customers through

future rate reductions. Accordingly, the regulated enterprise would recognize the amounts charged pursuant to such rates as liabilities rather than as revenues. If a cost to repair storm damage is subsequently incurred, the enterprise would charge that cost to expense and reduce the liabilities at that time by recognizing income in amounts equal to the cost.

Accounting for Leases

40. Statement 13, as amended, specifies criteria for classification of leases and the method of accounting for each type of lease. For rate-making purposes, a lease may be treated as an operating lease even though the lease would be classified as a capital lease under the criteria of Statement 13. In effect, the amount of the lease payment is included in allowable costs as rental expense in the period it covers.

41. For financial reporting purposes, the classification of the lease is not affected by the regulator's actions. The regulator cannot eliminate an obligation that was not imposed by the regulator (paragraph 12). Also, by including the lease payments as allowable costs, the regulator sets rates that will provide revenue approximately equal to the combined amount of the capitalized leased asset and interest on the lease obligation over the term of the lease and, thus, provides reasonable assurance of the existence of an asset (paragraph 9). Accordingly, regulated enterprises would classify leases in accordance with Statement 13 as amended.

42. The nature of the expense elements related to a capitalized lease (amortization of the leased asset and interest on the lease obligation) is not changed by the regulator's action; however, the timing of expense recognition related to the lease would be modified to conform to the rate treatment. Thus, amortization of the leased asset would be modified so that the total of interest on the lease obligation and amortization of the leased asset would equal the rental expense that was allowed for rate-making purposes.

43. The Board notes that generally accepted accounting principles do not require interest expense or amortization of leased assets to be classified as separate items in an income statement. For example, the amounts of amortization of capitalized leased nuclear fuel and interest on the related lease obligation could be combined with other costs and displayed as "fuel cost." However, the disclosure of total interest cost incurred, required by Statement 34, would include the interest on that lease obligation; and the disclosure of the total amortization charge, required by Statement 13, would include amortization of that leased asset.

Revenue Collected Subject to Refund

44. In some cases, a regulated enterprise is permitted to bill requested rate increases before the regulator has ruled on the request.

45. When the revenue is originally recorded, the criteria in paragraph 8 of Statement 5 would determine whether a provision for estimated refunds should be accrued as a loss contingency.

That provision would be adjusted subsequently if the estimate of the refund changes (paragraph 11(a)).¹⁶

Refunds to Customers

46. Statement 16 limits prior-period adjustments (other than those that result from reporting accounting changes) to corrections of errors, adjustments that result from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries, and adjustments related to prior interim periods of the current fiscal year.

47. In accordance with Statement 16, estimated refunds that were not previously accrued would be charged to income in the first period in which they meet the criteria for accrual (paragraph 8 of Statement 5). If the amounts are material, the disclosures specified in paragraph 19 of this Statement would be furnished.

Accounting for Compensated Absences

48. Statement 43 specifies criteria for accrual of a liability for employees' compensation for future absences. For rate-making purposes, compensation for employees' absences may be included in allowable costs when the compensation is paid.

49. The liability, if any, would be accrued in accordance with Statement 43 because rate actions of the regulator cannot eliminate obligations that were not imposed by the regulator (paragraph 12). By including the accrued compensation in future allowable costs on an as-paid basis, the regulator provides reasonable assurance of the existence of an asset. The asset is the probable future benefit (increased revenue) that will result from the regulatory treatment of the subsequent payment of the liability (paragraph 9). Accordingly, the enterprise also would record the asset that results from the regulator's actions.

Appendix C

BASIS FOR CONCLUSIONS

CONTENTS

	Paragraph Numbers
Introduction	50
Relationship of Regulatory-Prescribed Accounting to Generally Accepted Accounting Principles.....	51-55
Economic Effects of Regulation.....	56-59
Scope	60-74
General Standards of Accounting for the Effects of Regulation.....	75-80
Specific Standards Derived from the General Standards	81-86
Allowance for Funds Used during Construction.....	82-84
Intercompany Profit.....	85-86
Other Specific Standards.....	87-90
Accounting for Income Taxes	87-90
Other Specific Accounting Matters.....	91-113
Recovery of Cost without Return on Investment	91-94
Accounting for Leases.....	95-98
Revenue Collected Subject to Refund.....	99-101
Refunds to Customers	102-108
Rate Making Based on a Fair Value Rate Base.....	109-111
Acquisition Adjustments.....	112-113
Evidence	114-115
Effective Date and Transition.....	116-120

Appendix C: BASIS FOR CONCLUSIONS

Introduction

50. This appendix discusses factors deemed significant by members of the Board in reaching the conclusions in this Statement. It includes descriptions of the various alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

Relationship of Regulatory-Prescribed Accounting to Generally Accepted Accounting Principles

51. The FASB Discussion Memorandum, *Effect of Rate Regulation on Accounting for Regulated Enterprises*, presented a threshold issue: "Should accounting prescribed by regulatory authorities be considered in and of itself generally accepted for purposes of financial reporting by rate-regulated enterprises?"

52. Virtually all respondents to the Discussion Memorandum indicated that accounting prescribed by regulatory authorities should not be considered in and of itself generally accepted for purposes of financial reporting by rate-regulated enterprises. Respondents noted that the function of accounting is to report economic conditions and events. Unless an accounting order indicates the way a cost will be handled for rate-making purposes, it causes no economic effects that would justify deviation from the generally accepted accounting principles applicable to business enterprises in general. The mere issuance of an accounting order not tied to rate treatment does not change an enterprise's economic resources or obligations. In other words, the economic effect of regulatory decisions—not the mere existence of regulation—is the pervasive factor that determines the application of generally accepted accounting principles.

53. Respondents also noted that regulatory-prescribed accounting has not been considered generally accepted per se in the past.

54. The Board concluded that regulatory-prescribed accounting should not be considered generally accepted per se, but rather that the Board should specify how generally accepted accounting principles apply in the regulatory environment.

55. Some respondents to the FASB Exposure Draft, *Accounting for the Effects of Regulation of an Enterprise's Prices Based on Its Costs*, suggested that the Board clarify the relationship of this Statement to an enterprise's regulatory accounting and to regulators' actions. This Statement does not address an enterprise's regulatory accounting. Regulators may require regulated enterprises to maintain their accounts in a form that permits the regulator to obtain the information needed for regulatory purposes. This Statement neither limits a regulator's actions

nor endorses them. Regulators' actions are based on many considerations. Accounting addresses the effects of those actions. This Statement merely specifies how the effects of different types of rate actions are reported in general-purpose financial statements.

Economic Effects of Regulation

56. The second threshold issue in the Discussion Memorandum was: "Does rate regulation introduce an economic dimension in some circumstances that should affect the application of generally accepted accounting principles to rate-regulated enterprises?"

57. Most respondents to the Discussion Memorandum indicated that rate regulation does introduce such an economic dimension in some circumstances. Respondents cited the cause-and-effect relationship of costs and revenues as the principal economic effect of regulation that affects accounting for regulated enterprises. They noted that cost might be one factor used by unregulated enterprises to establish prices, but it would often not be the most important factor. Usually, prices are limited by the market. An unregulated enterprise might desire to price its goods or services at a level that would recover all costs and a reasonable profit, however, the market might not permit that price. Alternatively, an unregulated enterprise might be able to increase its prices and its profit if competition does not limit its prices. In either case, cost often is not the principal determinant of prices. In contrast, for an enterprise with prices regulated on the basis of its costs, allowable costs are the principal factor that influences its prices.

58. The economic effect cited by most respondents is the ability of a regulatory action to create a future economic benefit—the essence of an asset. For example, consider a regulated enterprise that incurs costs to repair damage caused by a major storm. If the regulator approves recovery of the costs through rates over some future period or is expected to do so, the rate action of the regulator creates a new asset that offsets the reduction in the damaged asset. The enterprise has probable future economic benefits—the additional revenue that will result from including the cost in allowable costs for rate-making purposes. The future benefits are obtained or controlled by the enterprise as a result of a past event—incurring the cost that results in the rate order. Thus, the criteria of Concepts Statement 3 for an asset are met.

59. Most respondents that opposed special accounting for the effects of regulation cited the need for comparability between regulated and unregulated enterprises. Paragraph 119 of FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, indicates that "... the purpose of comparison is to detect and explain similarities and differences." The Board concluded that comparability would not be enhanced by accounting as though regulation had no effect. Regulation creates different circumstances that require different accounting.

Scope

60. The Discussion Memorandum discussed regulation of various industries, and it asked

whether a Board pronouncement should identify specific industries that are affected. Most respondents indicated that applicability of an FASB Statement on rate regulation should be specified by clearly describing the nature of the regulated operations to which it applies rather than by attempting to delineate specific industries. Some noted that changes in the political environment can cause changes in the nature of regulation. Accordingly, whether an industry meets the criteria for applicability might change over time. The Board agreed with those respondents and, accordingly, specified criteria that focus on the nature of regulation rather than on specific industries.

61. This Statement specifies the economic effects that result from the cause-and-effect relationship of costs and revenues in the rate-regulated environment and how those effects are to be accounted for. The nature of those effects led to the criteria for applicability of this Statement (paragraph 5).

62. The first criterion is the existence of third-party regulation. That criterion is intended to exclude contractual arrangements in which the government, or another party that could be viewed as a "regulator," is a party to a contract and is the enterprise's principal customer. For example, the normal Medicare and Medicaid arrangements are excluded from the scope of this Statement because they are contractual-type arrangements between the provider and the governmental agency that is responsible for payment for services provided.

63. Some respondents to the Exposure Draft indicated that cooperative utilities should be included in the scope of this Statement. They observed that some cooperative utilities' rates are subject to third-party regulation, but others' rates are set by their own governing board. The governing board is elected by the members of the cooperative, and it has the same authority as an independent, third-party regulator. In their view, the difference between cooperative utilities that are subject to third-party regulation and those that are not does not justify different accounting. The Board agreed with those respondents, and modified the first criterion to include enterprises with rates established by their own governing board providing that board is empowered by statute or by contract to establish rates that bind customers.

64. A number of governmental utility respondents to the Exposure Draft asked that governmental utilities be included within the scope of this Statement. They noted that many governmental utilities have been guided by the same accounting practices and standards as investor-owned utilities in their general-purpose financial statements, and they expressed the view that users' emphasis on comparability supports continuation of that practice. In their view, the Board's decision not to address governmental utilities in this Statement should not preclude them from applying it. The Board agreed with those respondents and modified paragraph 5(a) so as not to preclude application by governmental utilities with rates set by their own governing board.

65. The second criterion is that the regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products. If rates are based on industry

costs or some other measure that is not directly related to the specific enterprise's costs, there is no cause-and-effect relationship between the enterprise's costs and its revenues. In that case, costs would not be expected to result in revenues approximately equal to the costs; thus, the basis for the accounting specified in this Statement is not present under that type of regulation. That criterion is intended to be applied to the substance of the regulation, rather than its form. If an enterprise's regulated rates are based on the costs of a group of companies and the enterprise is so large in relation to the group of companies that its costs are, in essence, the group's costs, the regulation would meet the second criterion for that enterprise.

66. The last criterion requires that it be reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. Regardless of the actions of the regulator, if the market for the enterprise's regulated services or products will not support a price based on cost, the enterprise's rates are at least partially controlled by the market. In that case, the cause-and-effect relationship of costs and revenues that is the basis for the accounting required by this Statement cannot be assumed to exist, and this Statement would not apply.

67. The Board does not intend the last criterion as a requirement that the enterprise earn a fair return on shareholders' investment under all conditions; an enterprise can earn less than a fair return for many reasons unrelated to the ability to bill and collect rates that will recover allowable costs.¹⁷ For example, mild weather might reduce demand for energy utility services. In that case, rates that were expected to recover an enterprise's allowable costs might not do so. The resulting decreased earnings do not demonstrate an inability to charge and collect rates that would recover the enterprise's costs; rather, they demonstrate the uncertainty inherent in estimating weather conditions.

68. The last criterion also requires reasonable assurance that the regulated environment and its economic effects will continue. That requirement must be evaluated in light of the circumstances. For example, if the enterprise has an exclusive franchise to provide regulated services or products in an area and competition from other services or products is minimal, there is usually a reasonable expectation that it will continue to meet the other criteria. Exclusive franchises can be revoked, but they seldom are. If the enterprise has no exclusive franchise but has made the very large capital investment required to provide either the regulated services or products or an acceptable substitute, future competition also may be unlikely.

69. Some respondents to the Discussion Memorandum questioned whether, in light of recent events, it would ever be reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers. They cited recent developments—such as the use of solar devices as alternatives to certain energy utility services, increasing competition in the telecommunications industry, and deregulation of various transportation industries—as evidence that the environment of a regulated enterprise can change rapidly. The Board concluded that users of financial statements should be aware of the possibility of rapid, unanticipated changes in an industry, but accounting should not be based on

such possibilities unless their occurrence is considered probable. However, changes of a long-term nature could modify the demand for an enterprise's regulated services sufficiently to affect its qualifying under the criterion of subparagraph 5(c).

70. The first scope limitation of paragraph 8—excluding accounting for price controls imposed by governmental action in times of emergency, high inflation, or other unusual conditions—was included in the Discussion Memorandum. Price controls imposed in periods of unusual conditions are not expected to be applied consistently over an extended period. Indeed, their duration usually is limited by statute. In that environment, assurance of future benefits cannot be provided by probable future actions of the price control regulator because that regulator may not exist at a given future date.

71. Accounting for contracts in general was also excluded from the scope of the Discussion Memorandum. The economic effects of cost reimbursement contracts are in some respects similar to the economic effects of the type of regulation addressed by this Statement. However, most contracts tend to be relatively short-term, whereas regulation of enterprises covered by this Statement is expected to continue beyond the foreseeable future. The Board noted that other authoritative literature addresses contract accounting and concluded that it should exclude the general issue of contract accounting from the scope of this Statement.

72. The Discussion Memorandum described rate-making processes in several industries and asked whether each process justified the application of this Statement. As noted in paragraph 60, the Board concluded that applicability of this Statement should be specified by describing the nature of the regulated operations and the type of rate making to which it applies rather than by attempting to delineate specific industries.

73. In view of the nature of comments received, the Board concluded that the possible application of this Statement to the health care industry should be discussed. The Board does not intend to preclude application of the provisions of this Statement to the health care industry or to any other industry. Rather, application of this Statement is limited to regulated operations that meet the specified criteria for application.

74. In general, rates for services in the health care industry are not regulated based on the provider's costs. The federal Medicare and Medicaid programs usually are applied through a contractual-type arrangement (paragraph 62). Some states are applying comprehensive, prospective rate making to health care providers. In some cases, the rates set by state regulatory agencies are accepted for Medicare and Medicaid reimbursement purposes. There is some disagreement about the extent to which such rates are based on a provider's costs. If regulatory agencies in those states base rates on the provider's costs and adopt a permanent system of regulation, health care providers in those jurisdictions could be subject to the provisions of this Statement. However, the criterion in subparagraph 5(c) also would have to be considered to determine whether the Statement applies to the enterprise.

General Standards of Accounting for the Effects of Regulation

75. The Board concluded that, for general-purpose financial reporting, the principal economic effect of the regulatory process is to provide assurance of the existence of an asset or evidence of the diminution or elimination of the recoverability of an asset. The regulator's rate actions affect the regulated enterprise's probable future benefits or lack thereof. Thus, an enterprise should capitalize a cost if it is probable that future revenue approximately equal to the cost will result through the rate-making process.

76. A number of respondents to the Exposure Draft asked for clarification of the types of costs addressed by paragraph 9. Those respondents expressed the view that tangible assets should be capitalized based on the criteria used by unregulated companies; paragraph 9 should be limited to other assets. Paragraph 9 was intended to address only accounting for costs that would be charged to expense by an unregulated enterprise, and the Board modified the paragraph to so indicate.

77. The regulatory process, as usually practiced, has two aspects. First, either historical or projected test period costs are used to compute the revenues necessary to provide for similar costs during the period in which the rates will be in force. Second, test period costs are adjusted to provide for recovery or to prevent recovery of costs that are considered unusual or unpredictable. If unusual or unpredictable costs are not provided for in advance, they may be recovered after their incurrence through increased rates provided for that purpose. In some cases, rate orders do not specify whether costs are (a) included as normal test period costs, used to compute rates that are intended to provide for similar future costs, or (b) incurred costs designated for specific recovery. The Board concluded that costs should be capitalized only if the future revenue is expected to be provided to permit recovery of the previously incurred cost rather than merely to provide for recovery of higher levels of similar future costs.

78. If rates are designed to be adjusted automatically for changes in operating expenses (e.g., costs of purchased fuel), the regulator's intent could be either to permit recovery of the incurred cost or merely to provide for recovery of similar future costs. Normal operating expenses such as fuel costs usually are provided for in current rates. In that case, the presumption is that the rate increase is intended to permit recovery of similar future costs. That presumption, which would preclude capitalizing the incurred cost, can be overcome only if it is clear that the regulator's intent is to provide recovery of the incurred cost.

79. Rate actions of a regulator can also impose a liability on a regulated enterprise in the following ways:

- a. A regulator can order a regulated enterprise to refund previously collected revenues.
- b. A regulator can provide rates intended to recover costs that are expected to be incurred in the future. Paragraphs 38 and 39 illustrate that possibility. The resulting increased charges

to customers are liabilities and not revenues for the enterprise—the enterprise undertakes to provide the services for which the increased charges were collected, and it is obligated to return those increased charges if the future cost does not occur. The obligation will be fulfilled either by refunding the increased charges through future rate reductions or by paying the future costs with no corresponding effect on future rates. The resulting increases in charges to customers are unearned revenues until they are earned by their use for the intended purpose.

- c. For rate-making purposes, a regulator can recognize a gain or other reduction of overall allowable costs over a period of time. Paragraphs 35-37 illustrate that possibility. By that action, the regulator obligates the enterprise to give the gain or other reduction of overall allowable costs to customers by reducing future rates. Accordingly, the amount of the gain or cost reduction is the appropriate measure of the obligation.

80. A number of respondents to the Exposure Draft asked the Board to clarify whether paragraph 11(b), discussed in paragraph 79(b) above, was intended to apply to costs such as nuclear plant decommissioning costs. Decommissioning costs are incurred costs in the current accounting framework. Those costs and the related liabilities are imposed by regulation or statute, similar to the liability to restore the land after strip mining, discussed in paragraph 142 of Concepts Statement 3. Accordingly, paragraph 11(b) does not address those costs.

Specific Standards Derived from the General Standards

81. The specific standards derived from the general standards deal with recognition, as assets and increases in net income, of allowable costs that are not usually accepted as incurred costs in the present accounting framework. For the reasons explained below, the Board concluded that recognition is appropriate for those allowable costs. However, the Board does not intend them to be used as guidance for other applications of the general standards in paragraphs 9-12.

Allowance for Funds Used during Construction

82. Most respondents to the Discussion Memorandum supported the present practices of public utilities in accounting for the allowance for funds used during construction. They noted that the current income statement display reflects the regulatory process used in determining the amount to be capitalized and, thus, aids the user in understanding the regulatory environment. They cited the regulator's determination of the "cost" of equity capital as a basis for accepting that amount as a cost, and they noted that unregulated enterprises do not have a similar basis. They also noted that most utilities have an obligation to construct the facilities necessary to provide regulated services. Thus, there is no option of not obtaining the required funds or using accumulated funds to retire debt instead of investing in construction, and there is no available "avoidable cost" to use as the measure of the cost of the funds used.

83. Respondents who opposed present practices of accounting for the allowance for funds used during construction indicated that the cost of equity funds should be excluded from that

allowance. Those respondents cited paragraph 49 of Statement 34, which states that "... recognition of the cost of equity capital does not conform to the present accounting framework." However, the arguments presented by those respondents supported capitalization of interest in accordance with Statement 34. Capitalization of interest in accordance with Statement 34 would be based on actual interest rates on outstanding debt and limited to the total amount of interest cost incurred during the period. In most cases, the effect on net income would be similar to capitalizing an allowance that included a cost of equity funds.

84. Some Board members believe that the allowances for funds used during construction, computed under current utility practices, are appropriate measures of the costs of financing construction and that the regulators' actions provide reasonable assurance of the existence of assets that should be measured by the amount on which rates will be based. Other Board members believe that those amounts are acceptable substitutes for the amount of interest that would be capitalized in accordance with Statement 34 and that, absent a change in regulatory practices, the cost of a change in those accounting practices would exceed any perceived benefits. The Board concluded that the amounts capitalized for rate-making purposes also should be capitalized for financial reporting purposes.

Intercompany Profit

85. Most respondents to the Discussion Memorandum indicated that enterprises should not eliminate intercompany profits on sales to regulated affiliates if it is probable that, through the rate-making process, future revenues in amounts approximately equal to the intercompany transfer price will be provided. That revenue would result from inclusion of the intercompany profits in the amount used by the regulator as allowable cost for purposes of depreciation and return on investment. They noted that an enterprise does not recognize profits on sales to unregulated affiliates because the profits are not validated by transactions with outside parties. According to those respondents, however, an enterprise should recognize profits on sales to a regulated affiliate to the extent that the profits are included in allowable costs in the rate-making process because the profits are validated by the rate actions of the regulator. The regulator's acceptance of the transfer price provides evidence of recoverability. For rate-making purposes, the intercompany profits will be included in the depreciation used as an allowable cost, and the undepreciated amount will be included in the investment on which a return is provided as an allowable cost. Those respondents noted that ARB 51 did not require elimination of intercompany profits on sales to regulated affiliates.

86. The Board concluded that intercompany profits on sales of assets to regulated affiliates should not be eliminated in consolidated financial statements if the transfer price is reasonable and it is probable that, through the rate-making process, future revenue approximately equal to the transfer price will result from the regulated affiliate's use of those assets. In view of existing regulatory practices, the Board further concluded that the transfer price usually should be considered reasonable if the price is accepted or not challenged by the regulator that governs the regulated affiliate. Otherwise, reasonableness should be considered in light of the

circumstances. For example, reasonableness might be judged by the return on investment earned by the manufacturing or construction operations or by a comparison of the transfer prices with prices available from other sources.

Other Specific Standards

Accounting for Income Taxes

87. In the past, enterprises generally have not provided for deferred income taxes if regulated rates to customers were based on taxes currently payable. Most respondents to the Discussion Memorandum supported that practice based on the rationale of Opinion 11. Opinion 11 indicates that deferred taxes are the result of comprehensive interperiod allocation of income taxes to achieve a proper "matching" of revenues and expenses. Those respondents indicated that a provision for deferred income taxes does not achieve a proper "matching" if rates to customers are based on taxes currently payable. In that situation, the income tax expense should be recorded in the future periods in which the taxes become payable and the regulator grants a resulting rate increase. Those respondents also noted that Concepts Statement 3 concluded that deferred taxes computed under the deferred method that is prescribed by Opinion 11 do not meet the definition of a liability. They expressed the view that the Board should not require utilities to commence to apply Opinion 11 when the Board may reconsider that Opinion in the near future.

88. Other respondents indicated that deferred income taxes should be recorded in all cases. However, if rates charged to customers are based on taxes currently payable, the recorded deferred taxes should also result in an asset—the future benefit that will result from treatment of the taxes as allowable costs for regulatory purposes in the period in which those taxes become payable.

89. Some Board members believe that the general standards (paragraphs 9-12) would require a regulated enterprise to record deferred income taxes. If it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on taxes payable at that time, the enterprise also would record an asset in an amount equal to the deferred income taxes. Offsetting those deferred income taxes against the related asset normally would not be appropriate because the asset will be realized through collections from customers and the deferred income taxes will not be paid to the customers. However, the Board concluded that any possible benefits of commencing to record deferred income taxes and an offsetting asset at this time probably would not exceed the cost. Accordingly, if rates are based on income taxes currently payable and it is probable that income taxes payable in future years because of net reversal of timing differences will be recovered through rates based on income taxes payable at that time, this Statement does not permit deferred income taxes to be computed or recorded in accordance with Opinion 11. However, it does require disclosure of the cumulative amount of timing differences for which deferred income taxes have not been provided. Approximate amounts of cumulative timing differences can be estimated without the

complex calculations required by Opinion 11. That information, together with the disclosures required by Opinion 11, should help users in estimating the possible future income tax and rate effects of those timing differences. The Board will reconsider its conclusions on this matter in the course of its project on accounting for income taxes, which was added to the agenda in January 1982.

90. A number of respondents to the Exposure Draft indicated that the disclosures required by this Statement would be misunderstood by users. In their view, users might attempt to estimate unrecorded deferred taxes as a charge to current income. The Board believes that users will understand the required disclosures if affected companies explain that deferred taxes are not provided because the method of rate making assures future recovery of future taxes. The Board believes that it is important to disclose those costs which have to be recovered from future customers through future rates.

Other Specific Accounting Matters

Recovery of Cost without Return on Investment

91. The Discussion Memorandum asked whether the recoverability criterion for capitalization of costs should be based on recovery of cost (which excludes a return on equity capital) or on recovery of cost of service (which includes a return on equity capital). In some cases, a regulator may provide rates intended to recover an incurred cost over an extended period without a return on the unrecovered cost during the recovery period. That issue was intended to elicit comments on whether the capitalized costs should be carried at the present value of the amount to be recovered in those cases. Most respondents interpreted that issue as asking whether any capitalization of costs was justified if the enterprise would recover its cost but would not realize a return on the unrecovered cost during the recovery period. Thus, many of the responses did not address the valuation of the resulting asset.

92. The Board concluded that capitalized costs not related to a tangible asset provide a measure of an intangible asset. Generally accepted accounting principles do not necessarily require the carrying amount of an intangible asset to be its discounted present value, nor do they necessarily require an enterprise to consider a return on investment when evaluating possible impairment of an intangible or depreciable asset. Accordingly, the Board concluded that it should not impose such a requirement on regulated enterprises.

93. Some respondents to the Exposure Draft indicated that disclosure should be required for capitalized costs that are recovered over an extended period without a return on investment during the recovery period. Those respondents indicated that regulated enterprises should provide the same types of disclosure for a given item as unregulated enterprises do.

94. The situations in question usually result from a problem encountered by a regulated

enterprise—an abandoned plant, major storm damage, or a similar event. For troubled debt restructurings, which are similar to the events in question, Statement 15 requires creditors that agree to forego interest on outstanding loans to disclose the amounts of nonearning assets included in the balance sheet. The Board agreed that regulated enterprises with capitalized costs that are recovered over an extended period without a return on investment during the recovery period should provide similar disclosure and, thus, added the requirements of paragraph 20.

Accounting for Leases

95. Statement 13, as amended, specifies criteria for classification of leases and the method of accounting for each type of lease. For rate-making purposes, a regulator may include lease payments in allowable costs as rental expense even though the lease would be classified as a capital lease under the criteria of Statement 13. The Discussion Memorandum asked for views on the economic effects of that regulatory treatment and how to account for those effects.

96. A number of respondents indicated that the classification of a lease is not affected by the regulator's actions. In their view, rate actions of the regulator cannot eliminate obligations to third parties unless the obligations were created by the regulator. Also, they observed that, over the term of a capital lease, the aggregate lease payments are equal to aggregate amortization of the leased asset and aggregate interest on the lease obligation. Thus, the regulator, by including the lease payments in allowable costs, establishes the existence of probable future benefits approximately equal to the combined amount of the capitalized leased asset and interest on the lease obligation over the term of the lease. In their view, regulated enterprises should classify leases in accordance with Statement 13 as amended. The Board agrees with that view.

97. Other respondents indicated that the regulator's action establishes that there is no asset related to the lease. They indicated that an income statement display consisting of amortization and interest would mislead users if the regulatory process based rates on rental expense. In their view, regulated enterprises should classify leases in accordance with their classification for rate-making purposes. The Board concluded that such a view focuses on the mechanics of the rate-making process rather than on the economic effects of the process. This Statement requires that regulated enterprises account for the economic effects of the rate-making process; it does not attempt to portray the mechanics of that process in financial statements.

98. The Board concluded that the nature of the expense elements for a capitalized lease (amortization and interest) are not changed by the regulator's action; however, the timing of expense recognition related to the lease should be modified to conform with the rate treatment. Thus, amortization of the leased asset would be modified so that the total interest and amortization recognized during a period would equal the rental expense included in allowable cost for rate-making purposes during that period. Although this Statement requires the expense elements of a capitalized lease to consist of amortization and interest regardless of the regulatory treatment, the Board notes that generally accepted accounting principles do not require interest expense or amortization expense to be shown as such in an income statement.

Revenue Collected Subject to Refund

99. In some jurisdictions, regulated enterprises are permitted to bill and collect requested rate increases before the regulator has ruled on the request.

100. Some respondents opposed reducing net income by the amount expected to be disallowed prior to the final rate action. In their view, if the enterprise requests the increase, the increase must be supported by the evidence. In that case, management could not take the position that some portion of the request is likely to be disallowed without providing the regulator a possible basis for disallowance. Other respondents supported application of the loss contingency provisions of Statement 5 to those rate increases. They indicated that utilities usually can predict the outcome of a rate hearing by considering recent actions of the regulator. They also indicated that it is misleading to include in net income revenue that is expected to be refunded.

101. The Board concluded that regulation does not have a unique economic effect that requires special accounting for anticipated refunds of revenue. Rather, regulation results in a contingency that should be accounted for in accordance with Statement 5, the same as other contingencies.

Refunds to Customers

102. The Discussion Memorandum asked whether the effects of rate-making transactions applicable to prior periods should be charged to income in the year in which they become estimable, as required by Statement 16 for other adjustments applicable to prior periods, or accounted for as prior period adjustments.

103. Some respondents opposed applying Statement 16 to utility refunds. Most of those respondents indicated that Statement 16 is not presently applied to significant refunds that could not be estimated in advance. They indicated that including refunds in a year other than that in which the amount refunded was included in income misstates both years, because the financial statements would not accurately reflect permitted rates of return, trends, etc. They also noted that current earnings could be reduced to a level at which existing covenants or state regulations governing investments by certain institutional investors could preclude necessary financing.

104. Respondents who favored applying Statement 16 to refunds indicated that the regulatory process does not introduce unique economic effects that warrant different accounting. In their view, the arguments supporting prior period adjustments for regulated enterprises are the same arguments that were made by unregulated enterprises before Statement 16 was issued.

105. The Board concluded that regulation does not have a unique economic effect that requires special accounting for refunds. Rather, regulation results in resolution of a previous contingency that should be accounted for the same as resolution of contingencies by unregulated enterprises. Reconsideration of Statement 16 was not within the scope of this Statement.

106. The Exposure Draft would have required disclosure of the pro forma effect of refunds on net income of each period presented, computed as though the refunds were retroactively recorded in the prior periods in which the revenue was recognized. A number of respondents objected to that requirement on the basis that the proposed disclosure indicates a need for restatement.

107. The Board believes that users are interested in two aspects of refunds. They are concerned about the impact of the refund in the year of the refund, and they also are concerned about the effect of the refund on trends of permitted earnings. Neither prior period adjustment nor current income charge provides all of the needed information. The Board concluded that users' needs could be satisfied by disclosure of (a) the effect of the refund on net income of the current year and (b) the years in which the refunded revenue was recognized.

108. In making its determination, the Board considered whether the amount disclosed should be net of related taxes. APB Opinion No. 30, *Reporting the Results of Operations*, prohibits net-of-tax disclosure of unusual or infrequently occurring items that are not extraordinary items. The Board concluded that users would not be confused by a net-of-tax disclosure of the effect of refunds. Users understand that refunds occur from time to time in public utilities—and they are concerned with the net effect rather than the gross amounts refunded. Accordingly, the Board concluded that refunds should be disclosed net of their related tax effects. Based on comments received and its deliberations, the Board decided that a narrow amendment of Opinion 30 for utility refunds was justified. However, the Board's action is limited to utility refunds, and it is not intended to otherwise modify or question the requirements of Opinion 30.

Rate Making Based on a Fair Value Rate Base

109. Some state regulatory commissions use a "fair value rate base" for determining allowable return on invested capital. Normally, those commissions do not permit recovery of the fair value of the enterprise's assets by including depreciation of the fair value in allowable cost; rather, depreciation is based on historical cost. The Discussion Memorandum asked whether that procedure provides a basis for accounting for utility plant at its "fair value" in financial statements prepared in accordance with generally accepted accounting principles.

110. Virtually all respondents opposed the use of fair value in financial statements. Respondents indicated that fair value would present the enterprise's assets at an amount in excess of the recoverable amount of those assets. The use of depreciation based on historical cost for rate-making purposes limits recovery to that historical cost. Respondents also noted that the realized rate of return based on historical cost is not proportionately greater in jurisdictions that base rates on a fair value rate base than in other jurisdictions; thus, they question whether there is substance to that special treatment.

111. The Board concluded that if the return on investment permitted in a jurisdiction is based on fair value but recovery of cost is based on historical cost, the fair value of the assets should not be recognized in general-purpose financial statements. The Board did not need to address

the accounting implications if a commission were to use fair value to determine both recovery of cost and return on capital invested because that practice currently is not used by regulators.

Acquisition Adjustments

112. A number of respondents to the Exposure Draft asked the Board to address accounting for *acquisition adjustments*. Those adjustments are the differences between the amounts paid for an acquired utility and the acquired utility's book value of its assets and liabilities. Those respondents indicated that utilities do not have goodwill because a utility cannot realize excess profits. Thus, they considered the example of goodwill in Appendix B unnecessary.

113. Opinion 16 describes how the amount paid in a business combination is allocated to the assets obtained and the liabilities assumed. Acquisition adjustments are values in excess of book value of identifiable assets obtained, valuation adjustments applicable to liabilities assumed, or goodwill or a combination of those items. Opinion 16 does not allow another possibility. The example of accounting for intangibles in Appendix B of this Statement indicates the appropriate accounting for goodwill. Additional guidance should not be needed about accounting for any portions of acquisition adjustments that represent amounts allocable to identifiable assets or liabilities such as property and equipment or intangibles amortizable over specific benefit periods.

Evidence

114. Several issues in the Discussion Memorandum identified types of evidence that might be available before a rate order is received and asked whether each would provide sufficient assurance to warrant capitalizing costs. A number of respondents indicated that judgment is needed to determine the adequacy of available evidence. In their view, all of the available evidence has to be evaluated, and the resulting decision cannot be standardized. Other respondents indicated that specific items did or did not provide adequate evidence; however, their responses appeared to differ based on the regulator involved and on their assumptions about other related circumstances.

115. The Board concluded that it should not attempt to categorize types of evidence and the reliance that should be based on each. Rather, this Statement indicates the degree of assurance required, and judgment must be exercised to evaluate whether that degree of assurance is present in various circumstances. In general, the Board concluded that costs should be capitalized only if (a) it is probable that future revenue in an amount at least equal to the cost will result from inclusion of that cost in allowable costs for rate-making purposes and (b) the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs.

Effective Date and Transition

116. This Statement prescribes the circumstances in which regulation has an economic effect that affects the application of generally accepted accounting principles, and it outlines the accounting that should result. Accounting changes that result from initial application of this Statement will involve accounting for the effects of regulation that have not been accounted for in the past and revising previous accounting that was not in accordance with the provisions of this Statement. Those changes are not expected to cause changes in the methods or in the results of regulation.

117. The Exposure Draft proposed that the Statement be effective for fiscal years beginning after December 15, 1982. A number of respondents suggested that the effective date be delayed to provide time for companies to determine how the Statement would affect them. The Board agreed that the proposed effective date could cause some hardship. Accordingly, this Statement is effective for fiscal years beginning after December 15, 1983.

118. Implementation of this Statement is not expected to have major effects on the accounting of most regulated enterprises. This Statement is considerably more specific than the Addendum; however, its thrust is similar. Accordingly, the Board concluded that comparability would be best achieved if this Statement were applied retroactively to the extent practicable. The Board did not extend that general approach to application of Statement 16, because Statement 16 does not permit retroactive application.

119. A number of respondents to the Exposure Draft urged the Board to permit affected companies to defer retroactive application of Statement 13. They noted that Statement 13 did not require retroactive application until the fourth year after its effective date, and they urged the Board to afford regulated enterprises the same consideration.

120. Retroactive application of Statement 13 was delayed to permit affected enterprises time to work out any resulting problems, such as indenture covenant restrictions. The Board agreed that regulated enterprises might have the same problems; thus, retroactive application of Statement 13 is not required until the first fiscal year beginning after December 15, 1986. The Board also decided that, pending retroactive application of Statement 13, regulated enterprises should furnish the same disclosure as was required of unregulated enterprises under Statement 13. Retroactive application of Statement 13 should not affect a regulated enterprise's net income or shareholders' equity. Thus, only the effect of retroactive application on the balance sheet is required by this Statement.

Appendix D: BACKGROUND INFORMATION

121. The Addendum to APB Opinion 2, issued in December 1962, outlined the general approach that has been used for accounting by regulated enterprises. On November 18, 1977, in response to requests from the Acting Chief Accountant of the Securities and Exchange Commission and from the AICPA's Accounting Standards Division, the FASB initiated a project to consider the effects of rate regulation on accounting for regulated enterprises.

122. An FASB Discussion Memorandum on rate regulation was issued on December 31, 1979. The Board received 197 letters of comment in response to the Discussion Memorandum. In May 1980, the Board conducted a public hearing on the issues in the Discussion Memorandum. Twenty-four individuals and organizations presented their views at the two-day hearing.

123. An Exposure Draft of a proposed Statement was issued on March 4, 1982. The Board received 172 letters of comment in response to that Exposure Draft.

124. An FASB task force provided counsel in preparing the Discussion Memorandum and in preparing material for Board consideration during the course of Board deliberations concerning this Statement. The task force included persons from the investment community, industry, public accounting, academe, and regulatory authorities.

Footnotes

FAS71, Footnote 1--The term *allowable costs* is used throughout this Statement to refer to all costs for which revenue is intended to provide recovery. Those costs can be actual or estimated. In that context, allowable costs include interest cost and amounts provided for earnings on shareholders' investments.

FAS71, Footnote 2--*Capitalize* is used in this Statement to indicate that the cost would be recorded as the cost of an asset. That procedure is often referred to as "deferring a cost," and the resulting asset is sometimes described as a "deferred cost."

FAS71, Footnote 3--The appropriate structure for setting accounting standards for state and local governmental units is currently under discussion. The FASB is proposing no change with respect to the applicability or use of its pronouncements in the governmental area until that matter is resolved.

FAS71, Footnote 4--For example, a regulator might authorize a regulated enterprise to incur a major research and development cost because the cost is expected to benefit future customers. The regulator might also direct that cost to be capitalized and amortized as an allowable cost over the period of expected benefit. If the criteria of paragraph 9 of this Statement were met, the enterprise would capitalize that cost even though FASB Statement No. 2, *Accounting for Research and Development Costs*, requires such costs to be charged to income currently. Statement 2 would still apply to accounting for other research and development costs of the regulated enterprise, as would the disclosure requirements of Statement 2.

FAS71, Footnote 5--An *incurred cost* is "a cost arising from cash paid out or obligation to pay for an acquired asset or service, a loss from any cause that has been sustained and has been or must be paid for" (Eric L. Kohler, *A Dictionary for Accountants*, 5th ed. [Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1975], p. 253).

FAS71, Footnote 6--The term *probable* is used in this Statement with its usual general meaning, rather than in a specific technical sense, and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved (*Webster's New World Dictionary of the American Language*, 2d college ed. [New York and Cleveland: World Publishing Company, 1972], p. 1132). That is the meaning referred to by FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*.

FAS71, Footnote 7--Refunds can be paid to the customers who paid the amounts being refunded; however, they are usually provided to current customers by reducing current charges.

FAS71, Footnote 8--The usual mechanism used by regulators for this purpose is to require the regulated enterprise to record the anticipated cost as a liability in its regulatory accounting records.

FAS71, Footnote 9--Statement 34 requires capitalization of interest cost on certain qualifying assets. The amount capitalized is the portion of the interest cost incurred during the period that theoretically could have been avoided if the expenditures had not been made.

FAS71, Footnote 10--The term *intercompany profit* is used in this Statement to include both profits on sales from one company to another within a consolidated or affiliated group and profits on sales from one operation of a company to another operation of the same company.

FAS71, Footnote 11--ARB No. 51, *Consolidated Financial Statements*, requires that profit on sales of assets remaining in the consolidated group be eliminated in consolidated financial statements. APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, effectively extends that requirement to affiliated entities reported on the equity method.

FAS71, Footnote 12--APB Opinion No. 11, *Accounting for Income Taxes*, requires comprehensive interperiod allocation of the income tax effect of timing differences, that is, differences between the timing of income or expense recognition in financial statements and in income tax returns.

FAS71, Footnote 13--The inception of a lease is defined in FASB Statement No. 23, *Inception of the Lease*.

FAS71, Footnote 14--The effect on related per-share amounts need not be disclosed if the enterprise does not disclose earnings per share.

FAS71, Footnote 15--See footnote 14.

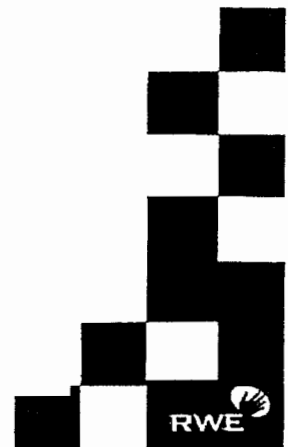
FAS71, Appendix B, Footnote 16--Revenue collected subject to refund is similar to sales with warranty obligations. Paragraph 25 of Statement 5 states that "inability to make a reasonable estimate of the amount of a warranty obligation at the time of sale because of significant uncertainty about possible claims . . . precludes accrual and, if the range of possible loss is wide, may raise a question about whether a sale should be recorded. . . ." Similarly, if the range of possible refund is wide and the amount of the refund cannot be reasonably estimated, there may be a question about whether it would be misleading to recognize the provisional revenue increase as income.

FAS71, Appendix C, Footnote 17--As indicated in footnote 1, the term *allowable costs* is used here to include earnings permitted on shareholders' investment.



Tennessee
American Water

MARCH 2008 RATE FILING



INTRODUCTION

On March 14, 2008, Tennessee American Water filed a general rate case application with the Tennessee Regulatory Authority (TRA) requesting an overall increase in revenue of \$7.645 million.

Under Tennessee American Water's overall proposal, the bill for the average residential customer using 4,305 gallons of water a month would increase \$3.65 per month to \$20.19, or less than 12 cents a day. On a percentage basis, Tennessee American Water's filing amounts to an overall increase of 20.58 percent. If the proposed rate increase is approved in full, Tennessee American Water customers will continue to receive a gallon of water delivered to their homes for less than a penny.

In its filing the company asked the TRA to recover the costs related to \$21.4 million in capital investment and increased operating costs. Key factors in the need to file for a rate increase include:

- Ongoing infrastructure investments in Chattanooga and the surrounding service area
- Increased energy and chemical costs
- Increased costs of employee labor and related expenses
- Federally mandated increase in employee pension plan costs

The TRA, which regulates the rates and service of Tennessee American Water, will undertake a comprehensive and open review of the rate request. Parties such as the Consumer Advocate's Office and the City of Chattanooga may be part of the regulatory process that can take up to several months.

If you have additional questions, please contact Kim Dalton, External Affairs Specialist for Tennessee American Water, at 423-755-7613, or email at kim.dalton@amwater.com.

FREQUENTLY ASKED QUESTIONS AND ANSWERS

Q: WHEN DID TENNESSEE AMERICAN WATER LAST FILE A RATE CASE?

A: The last rate case was filed in November 2006 on an historical test year ending June 2006. The company received approximately \$4.1 million of additional revenue as a result of that case.

Q. WHAT IS THE ANNUAL PERCENTAGE AND DOLLAR INCREASE IN REVENUE BEING SOUGHT IN THIS FILING?

A. Tennessee American Water is requesting a 20.58 percent increase that would produce \$7.645 million in additional annual revenues.

Q. WHAT DOES THE PROPOSED RATE INCREASE MEAN FOR THE AVERAGE WATER BILL?

A. The current average monthly residential water bill for Tennessee American Water customers using 4,305 gallons is \$16.54 a month. The proposed rates will raise the monthly bill by \$3.65, increasing it to \$20.19. Including the proposed increase, customers will still receive a gallon of water for less than a penny.

Q. WHAT ARE THE MAJOR FACTORS CAUSING THE REQUESTED INCREASE IN WATER RATES?

	(millions)
Increased investment related to \$21.4 million in water facilities	\$2.439
Cost of capital	\$1.953
Electricity, chemicals, wastewater and other routine expenses	\$1.222
Federally mandated increase in contributions to employee pension plan.....	\$1.161
Impact of declining customer water usage.....	\$0.370

Q. IS TENNESSEE AMERICAN WATER CONTINUING TO FUND AND PARTICIPATE IN COMMUNITY AND CHARITABLE ACTIVITIES?

A. Yes. Tennessee American Water has a long track record of supporting community initiatives such as the United Way, local schools, Chattanooga Area Food Bank, and the Tennessee Aquarium. The water company remains committed to investing in corporate responsibility and community programs that make a sustainable impact in Chattanooga. Additionally, the employees of Tennessee American Water donate their time to many community organizations. Since 2006, Tennessee American Water and its employees donated more than \$126,000 to local charities and community organizations. These contributions to the communities are not recovered in customer rates, but are contributed by the stockholders as support for the communities we serve.

Q. WHAT TYPE OF CAPITAL INVESTMENT IS THE COMPANY MAKING?

A. Tennessee American Water has invested in replacing and installing new water lines, meters and hydrants, and made improvements to pumping facilities to enhance water service reliability and efficiency. While the company has maintained its plant and equipment, all plants have a finite useful life. In addition, the regulatory requirements imposed under the federally mandated Safe Drinking Water Act have involved new treatment processes causing certain plant and equipment to be modified in order to meet enhanced treatment requirements.

Q. DOES THE COMPANY CONSIDER THE IMPACT OF RATE INCREASES WHEN IT DECIDES TO FILE A RATE CASE?

A. We carefully consider any request for added cost to the customer. That is why we continually look for ways to improve our operating efficiency and effectiveness. Tennessee American Water has a public service obligation to protect the integrity of its water facilities in accordance with all regulatory and health requirements. The company has an obligation to its customers and investors to achieve a market rate of return on the investment in utility facilities. Neither of these obligations is met if rate increases are deferred.

Q. DOES THE COMPANY BELIEVE THAT ITS WATER RATES DETER BUSINESSES FROM LOCATING IN THE AREAS IT SERVES?

A. No. On the contrary, the dependability of the trusted water service provided by Tennessee American Water and the ability to offer high quality water service in an abundant supply at reasonable prices is an attractive element to encourage business and industry to locate in an area. As proven during the current drought in the surrounding areas such as Atlanta, the adequacy and reliability of Tennessee American Water's facilities are a key component to our economic development. In addition, the company implemented an Economic Development Tariff a few years ago to help with attracting new business or growing existing businesses, and the leadership team at Tennessee American Water is committed to working with local economic development officials to help promote the community.

Q. DOES THE COMPANY LOOK AT OPPORTUNITIES FOR COST SAVINGS?

A. Yes. Like any business, Tennessee American Water constantly reviews costs and looks for efficiencies through automation of treatment processes, meter reading, service orders, and customer service efforts. The water company has testified in all of its past cases about those efforts. Unfortunately, a significant portion of the cost of providing trusted water service relates to investment in pipe and other facilities. We use asset management techniques to gain the most efficient and effective life from those assets. We also continually look for ways to maximize the efficiency of our operation through national purchasing and work management programs that leverage the economies of scale and purchasing power of the entire American Water System.

Q. HOW DO THE PROPOSED RATES COMPARE WITH OTHER WATER UTILITIES?

A. Tennessee American Water has completed a period of significant investment in facilities involving approximately \$27 million in the two years since the last rate application, and \$57 million in new construction during the past five years. Our rates are comparable with other water utilities serving the area that have maintained their facilities and reflected the true cost of water service in their rates. The company believes this is particularly true when the elements of quality, quantity and dependability of water service are factored into the equation.

Any such comparison of rates should also consider a number of other factors. These include:

- Tennessee American Water is a tax-paying entity whose taxes help support various levels of government and lower the tax burden on customers. The company is one of the top five tax payers in Hamilton County.
- The company's total cost to provide water service is reflected in rates. Many systems, most publicly owned, use items such as tap fees, and allocate certain costs to other areas of government which make water rates appear lower than they really are.
- The track record of investment in the utility.

Q. DOES THE GOVERNMENT HAVE STANDARDS TO DETERMINE THE AFFORDABILITY OF WATER?

A. Yes. The U.S. EPA has established an affordability benchmark of 2.5 percent of median household income for water. Tennessee American Water's current average water bill is 0.62 percent of the median household income for its service area. If the full rate increase requested in this case is approved, the average residential bill would equal 0.76 percent of the median household income, which is still well below the national standard.

Q. WHEN WILL THE NEW WATER RATES GO INTO EFFECT?

A. Based on the TRA's usual practice of rate case review there will not be a rate change for several months.

Water rate hike won't immediately trickle down to municipalities



STAFF PHOTO BY DAN HENRY

Hixson Utility District general manager, Gene Huffine, stands near the No. 1 pump at Walker's Corner pumping station. Of the 10 local water utilities, Hixson's water rates are the most affordable, county figures show.



Online: Read the county auditor's report on water utilities. Comment on this story.

BY MATT WILSON

STAFF WRITER

Though Tennessee-American Water Co. is proposing to raise its rates by 20 percent, the jurisdictions that buy water from the utility won't have to raise rates until their contracts expire, officials said.

Walden's Ridge Utility District and Signal Mountain buy water from Tennessee-American and resell it to their local customers, according to Tennessee-American President John Watson.

The other utilities in the county get water elsewhere.

Tennessee-American Water Co.'s 20 percent rate increase requested must be approved by state regulators.

There are seven other water utilities in the county. The county's 10 water utilities serve about 137,000 customers, according to a report by County Auditor Bill McGriff's office.

Extra water costs from Tennessee-American's rate increase, if approved by the Tennessee Regulatory Authority, could affect those water utilities once the contracts expire, Mr. Wat-

son said.

Signal Mountain residents won't see an increase until next year, said Vice Mayor Herschel Dick, who previously oversaw the town's water system. The town's contract with the Tennessee-American began in July 2006 and lasts until July 2009, he said.

"We don't know what 2009 is going to bring us," he said.

The audit report shows that Signal Mountain's water is generally cheaper than the water Tennessee-American provides to its own residential customers.

For a residential customer buying 5,000 gallons of water from the Signal Mountain dis-

See WATER, Page B5

Water

• Continued from Metro

trict, it costs \$19.47 a month as of mid-2007, the auditor's report shows. For a Tennessee-American customer, it was \$20.42 a month at the end of 2006.

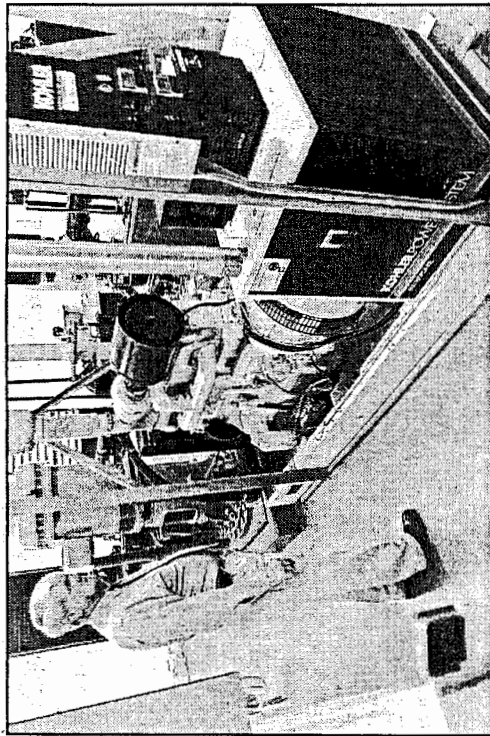
The reduced cost comes from the fact that Signal Mountain foots the bill to pump its water to customers, Mr. Dick said. Signal Mountain also gets a reduced rate from Tennessee-American based on the volume of water it buys, he said.

At the end of 2006, for residential customers who use 5,000 gallons, Tennessee-American had the sixth most-expensive water out of the 10 water utilities in the county, according to the auditor's report. But with the company's 12 percent increase in May of last year and its proposed 20 percent increase, it would become the fourth most expensive.

For commercial customers, the company is about the second most expensive, according to the auditor's report, and would stay in that spot after the increase.

Mr. Watson has argued that the rate increase is necessary to maintain and improve Tennessee-American equipment such as pipes, meters and water-storage facilities.

It is "very difficult to compare rates of service" among



STAFF PHOTO BY DAN HENRY

Hixson Utility District general manager Gene Huffine explains the water pumping process at Walker's Corner pumping station.

water utilities," he said, "because some utilities have tap fees — charges for turning on water service — and other charges not included in the rate itself. Heria and an additive to keep out phosphates are all that go in, he said.

Size matters, too, Mr. Huffine said. Hixson Utility District is the second-largest water provider in the county, serving about 24,500 customers.

Conversely, Sale Creek Utility District, Hamilton County's most-expensive and smallest water provider for residential customers, serves more than 700 customers, said Jim Reavley, chairman of the board for the utility. A monthly bill for 5,000 gallons in Sale Creek is \$40.87, according to the audi-

tor's report. While small, Sale Creek has "the same expense as the larger companies," he said, which contributes to higher rates. Part of that debt comes from the widening several years ago of Dayton Pike, Mr. Reavley said.

"We had to move over 50 percent of our 10-inch mains," he said. "We're still paying on that."

E-mail Matt Wilson at mwilson@timesfreepress.com

Water rates

Here are the minimum monthly charges for residential usage of 5,000 gallons of water from each of the water utilities in Hamilton County.

Utility	Minimum cost
Sale Creek Utility District	\$40.87
Mowbray Utility District	\$38.27
Walden's Ridge Utility District	\$27.87
Savannah Valley Utility District	\$26.70
Soddy-Daisy Felling Water Utility District	\$25.03
Union-Fork Bakewell Utility District	\$25.02
Tennessee American Water Co.	\$20.42
Town of Signal Mountain	\$19.47
Eastside Utility District	\$15.40
Hixson Utility District	\$9.78

SOURCE: HAMILTON COUNTY AUDITOR

STAFF GRAPHIC BY LAURA E. WALKER

TENNESSEE AMERICAN WATER COMPANY

TRA DOCKET #08-00039

PROPERTY TAX

FOR ATTRITION YEAR ENDED AUGUST 31, 2009

T-OTAX1 REVISED

Year	Property Tax Amount	Gross Assessment	Percentage of Property Tax to Assessment	Gross Assessment Growth	Cost Approach Values	Cost Approach Growth	% Cost Growth to Assessment
2000		\$ 42,010,000	A/				
2001	\$ 2,388,401	A/ 46,890,000	A/				
2002	2,365,524	A/ 46,900,000	A/	5.0936%			
2003	2,231,085	A/ 47,325,000	A/	5.0438%			
2004	2,296,102	C/ 48,423,000	A/	4.7144%			
2005	2,411,210	C/ 50,495,000	A/	4.7418%			
2006	2,521,971	D/ 51,956,000	A/	4.7751%	116,359,612		
2007	2,602,064	D/ 56,001,000	A/	4.8541%	123,478,018	6.12%	78.58%
2008	2,723,755	B/ 58,620,000	B/	4.6465%	129,841,581	5.15%	78.58%
2009	2,902,396	B/ 62,464,668	B/	4.6465%			

ATTRITION YR \$ 2,842,849 E/

A/ OFFICE OF STATE ASSESSED PROPERTIES.

B/ PERCENT 2007 GROWTH OVER 2006.

C/ TAWC RESPONSE TO FIRST SET OF TRA DATA REQUEST #47, TRA Docket #06-00290.

D/ CAPD work paper T-OTAX1A

E/ 8 MONTHS OF 2009 AND 4 MONTHS OF 2008 AMOUNTS.

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

R. DALE GRIMES
TEL: (615) 742-6244
FAX: (615) 742-2744
dgrimes@bassberry.com

AMSOUTH CENTER
315 DEADERICK STREET, SUITE 2700
NASHVILLE, TN 37238-3001
(615) 742-6200

www.bassberry.com

OTHER OFFICES

NASHVILLE MUSIC ROW
KNOXVILLE
MEMPHIS

September 8, 2006

 **COPY**

VIA HAND DELIVERY

Chairman Sara Kyle
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges So As to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful In Furnishing Water Service to Its Customers, Docket No. 04-00288.

Dear Chairman Kyle:

Enclosed please find the original and 15 copies of a Tennessee American Water Company's Notice of Filing of Tennessee American Water Customer Service Survey in the above-referenced docket. Also enclosed are two additional copies of the Notice of Filing, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions with respect to this filing, please do not hesitate to contact me at the telephone number listed above.

Very truly yours,



R. Dale Grimes

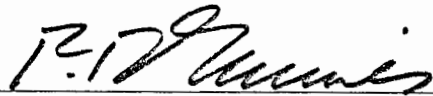
RDG/ms
Enclosures

cc: Timothy C. Phillips, Esq.

CERTIFICATE OF SERVICE

I hereby certify that a true and exact copy of the foregoing has been forwarded by hand-delivery on September 8, 2006, to the following:

Timothy C. Phillips, Esq.
Assistant Attorney General
Office of the Tennessee Attorney General
Consumer Advocate and Protection Division
425 5th Avenue North, 2nd Floor
Nashville, TN 37243-0491



R. Dale Grimes

Tennessee American Water Customer Service Survey

The survey: Tennessee American Water contracted with Wilkins Research Company in Chattanooga, TN, to interview customers regarding their satisfaction on a wide variety of quality and service issues. The parameters were that the customers have had a customer service contact with the company over the past year. A total of 5,012 customers were called between March 21 and June 20 in order to identify 243 customers who met the criteria. A total of 55.1% of the responses are from customers who contacted the water company within three months of the call; a total of 75.3% of the responses are from customers who contacted the water company within the past six months. Below is the questionnaire and responses from the survey.

Hello, I'm _____. We're conducting a survey concerning your water service, and would like to ask you a few questions. I am not attempting to sell anything, nor will your participation in this survey result in any future calls to sell you anything. First, are you responsible for the water bill in your household?

Q1: Have you or your family had a customer service contact with the water company in the past year?

If yes... As you think about your water service, how satisfied are you with each of the following:

Q2: The overall level and quality of service of the water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	53.1%	Total Satisfied	88.9%
Somewhat Satisfied	35.8%	Total Not Satisfied	9.9%
Not Very Satisfied	5.8%		
Not Satisfied At All	4.1%		
Neither	1.2%		

Q2A: The quality and taste of your water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	40.7%	Total Satisfied	75.3%
Somewhat Satisfied	34.6%	Total Not Satisfied	20.2%
Not Very Satisfied	14%		
Not Satisfied At All	6.2%		
Neither	4.5%		

Q2B: The rates you pay for water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very satisfied	25.1%	Total Satisfied	70.4%
Somewhat satisfied	45.3%	Total Not Satisfied	26.7%
Not very satisfied	12.3%		
Not satisfied at all	14.4%		
Neither	1.2%		

Q3A: And do you agree or disagree with the following statements about the water company

The water company.... is a leader in the water industry. Do you Strongly Agree, Agree, Disagree or Strongly Disagree?

Strongly agree	10.3%	Total Agree	54.7%
Agree	44.4%	Total Disagree	16.5%
Disagree	12.8%		
Strongly disagree	3.7%		
Neither	28.8%		

Q3B: The water company... Has modern facilities. Do you Strongly Agree, Agree, Disagree or Strongly Disagree?

Strongly Agree	10.3%	Total Agree	60.5%
Agree	50.2%	Total Disagree	9.1%
Disagree	5.8%		
Strongly Disagree	3.3%		
Neither	30.5%		

Q3C: The water company... Is environmentally responsible. Do you Strongly Agree, Agree, Disagree or Strongly Disagree?

Strongly Agree	12.8%	Total Agree	60.5%
Agree	47.7%	Total Disagree	6.5%
Disagree	4.9%		
Strongly Disagree	1.6%		
Neither	32.9%		

Q3D: The water company... Uses state-of-the-art treatment technologies. Do you Strongly Agree, Agree, Disagree or Strongly Disagree?

Strongly Agree	9.5%	Total Agree	42%
Agree	32.5%	Total Disagree	8.3%
Disagree	6.2%		
Strongly Disagree	2.1%		
Neither	49.8%		

Q3E: The water company... Operates in the best interest of its customers. Do you Strongly Agree, Agree, Disagree or Strongly Disagree?

Strongly Agree	13.2%	Total Agree	66.3%
Agree	53.1%	Total Disagree	21.9%
Disagree	12.8%		
Strongly Disagree	9.1%		
Neither	11.9%		

Q4: Now I would like to talk about the water service you received from Tennessee American Water, and how that service compares to other utility services you receive such as electric, gas, telephone and cable.

Q4A: How would you compare... Your water billing statement as to the ease of understanding. Would you say it is Very Good, Good, Poor, or Very Poor?

Very Good	51%	Total Good	90.5%
Good	39.5%	Total Poor	7.4%
Poor	4.1%		
Very Poor	3.3%		
Neither	1.9%		

Q4B: How would you compare... The value you receive based on what you pay for water. Would you say it is Very Good, Good, Poor, or Very Poor?

Very Good	28.4%	Total Good	79%
Good	50.6%	Total Poor	18.1%
Poor	14%		
Very Poor	4.1%		
Neither	2.9%		

Q4C: How would you compare... The responsiveness of the company when you have a problem. Would you say it is Very Good, Good, Poor, or Very Poor?

Very Good	32.1%	Total Good	74.5%
Good	42.4%	Total Poor	17.7%
Poor	9.1%		
Very Poor	8.6%		
Neither	7.8%		

Q4D: How would you compare... The customer service of the water company. Would you say it is Very Good, Good, Poor, or Very Poor?

Very Good	42%	Total Good	81.5%
Good	39.5%	Total Poor	14.8%
Poor	8.2%		
Very Poor	6.6%		
Neither	3.7%		

Q5: And which of your utility bills was the lowest one for your household this month?

Water	60.5%	Internet	4.9%
Electric (Power)	10.7%	Wireless Phone	3.7%
Cable	9.1%	Other	2.5%
Telephone	5.3%	Don't Know	3.3%

Q6: Thinking about your tap water, how satisfied are you with the following.

Q6A: Taste of your water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	32.5%	Total Satisfied	73.2%
Somewhat Satisfied	40.7%	Total Not Satisfied	26.7%
Not Very Satisfied	16%		
Not Satisfied At All	10.7%		

Q6A2: And what would you say is the reason you are dissatisfied?

Mineral Tasting	64.6%	Hardness	----
Residue Appearance	6.2%	Chlorine Odor	23.1%
Rusty Appearance	1.5%	Other	4.6%
Cloudy Appearance	----		

Q6B: Smell of your water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	43.2%	Total Satisfied	76.6%
Somewhat Satisfied	44.4%	Total Not Satisfied	12.4%
Not Very Satisfied	9.1%		
Not Satisfied At All	3.3%		

Q6B2: And what would you say is the reason you are dissatisfied?

Mineral Tasting	6.7%	Hardness	----
Residue Appearance	----	Chlorine Odor	80%
Rusty Appearance	----	Other	4%
Cloudy Appearance	----		

Q6C: Appearance of your water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	56.8%	Total Satisfied	95.9%
Total Not Satisfied	4.1%	Total Not Satisfied	4.1%
Somewhat Satisfied	39.1%		
Not Very Satisfied	1.6%		
Not Satisfied At All	2.5%		

Q6C2: And what would you say is the reason you are dissatisfied?

Mineral Tasting	10%	Hardness	10%
Residue Appearance	10%	Chlorine Odor	----
Rusty Appearance	20%	Other	20%
Cloudy Appearance	30%		

Q6D: Purity of your water -- Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	39.5%	Total Satisfied	87.2%
Somewhat Satisfied	47.7%	Total Not Satisfied	12.8%
Not Very Satisfied	9.5%		
Not Satisfied At All	3.3%		

Q6D2: And what would you say is the reason you are dissatisfied?

Mineral Tasting	41.9%	Hardness	3.2%
Residue Appearance	12.9%	Chlorine Odor	12.9%
Rusty Appearance	----	Other	22.6%
Cloudy Appearance	6.5%		

Q6E: The healthiness and safety of your water... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	39.9%	Total Satisfied	88.9%
Somewhat Satisfied	49%	Total Not Satisfied	11.1%
Not Very Satisfied	7.8%		
Not Satisfied At All	3.3%		

Q6E2: And what would you say is the reason you are dissatisfied?

Mineral Tasting	22.2%	Hardness	----
Residue Appearance	7.4%	Chlorine Odor	14.8%
Rusty Appearance	3.7%	Other (Specify)	37%
Cloudy Appearance	14.8%		

Q7: Now, I would like to talk about customer service When was your most recent customer service contact with the company?

Within the last 3 months	55.1%
4 - 6 months ago	20.2%
7 - 9 months ago	8.6%
10 - 12 months ago	8.2%
More than 1 year ago	4.1%
Can Not Recall	3.7%

Q7A: And what was the nature of your contact with the company?

To resolve a billing dispute	49.1%
Maintenance Issues, such as repair service or meter issue	24.4%
To turn on or off your service or to transfer your service	14.1%
To update your account	4.7%
To express concern about the quality or taste of your water	1.7%
Other (Specify)	4.3%
Do Not Recall	1.7%

Q7B: And would you say you were Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not At All Satisfied with the customer service you received?

Very Satisfied	56%	Total Satisfied	80.3%
Somewhat Satisfied	24.3%	Total Not Satisfied	19.7%
Not Very Satisfied	7.4%		
Not Satisfied At All	12.3%		

Q8: Thinking more about your contact with the water company, how satisfied were you with the following.

Q8A: The ease in access in getting hold of the water company... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	50.6%	Total Satisfied	60.5%
Somewhat Satisfied	35.4%	Total Not Satisfied	11.5%
Not Very Satisfied	5.3%		
Not Satisfied At All	6.2%		
Neither	2.5%		

Q8B: The employees you talked with on the phone... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	60.5%	Total Satisfied	87.2%
Somewhat Satisfied	26.7%	Total Not Satisfied	14%
Not Very Satisfied	9.5%		
Not Satisfied At All	4.5%		
Neither	3.7%		

Q8C: The field service representatives who came to your home or business... Would you say you are Very Satisfied, Somewhat Satisfied, Not Very Satisfied, or Not Satisfied At All?

Very Satisfied	27.2%	Total Satisfied	35.4%
Somewhat Satisfied	8.2%	Total Not Satisfied	7%
Not Very Satisfied	2.5%		
Not Satisfied At All	4.5%		
Neither	57.6%		

Q9: Part of customer service is communicating with customers like you. Over the past year, have you seen, read or heard anything from or about Tennessee American Water?

Yes	58%
No	42%

Q9A: And where did you hear it?

Bill Insert	38.3%	Newsletter	31.2%
Newspaper Ad	3.5%	Television News Report	2.8%
Water Quality Insert	8.5%	Other	
Newspaper Story	5%	Customer Service Rep	6.4%
Advertising	4.3%		

Q9B: And do you believe Tennessee American Water provides you with Too Little, Just Enough or Too Much information relating to water services?

Too Little	22.6%
Just Enough	77%
Too Much	0.4%

Q9C: And how would you like to receive information about water services?

Bill Insert	55.6%	Newsletter	20.2%
Newspaper Ad	1.2%	Television News Report	8.8%
Water Quality Insert	5.8%	Other	
Newspaper Story	1.6%	Email	2.5%
Advertising	0.8%	Telephone	3.7%

Q10: Now just a few more questions for statistical purposes... How many people live in your household?

1 Person	22.2%	4 People	12.3%
2 People	34.6%	5 People	6.6%
3 People	20.2%	More Than 5 People	4.1%

Q11: What is the age of your home?

Age of Home (Years)			
1-15 years	15.6%	45-60 years	28.4%
16-30 years	16.5%	Over 60 years	14.4%
31-45 years	15.6%	Do Not Know	9.5%

Q12: In what year were you born?

Year of Birth			
18-24 years	2.5%	45-54 years	24.7%
25-34 years	16%	55-64 years	17.7%
35-44 years	17.7%	65+	21.4%

Q13: Do you own or rent your place of residence?

Own	74.5%
Rent	24.3%
Other	1.2%

My name is John Watson, I am president of Tennessee American Water. I want to introduce the folks that are with me. Ray Golden, Kim Dalton, and they both assist with communications and community relations. Mike Miller who is the treasurer of Tennessee American, as well as he serves as our rate and revenue expert, and rate filings. And Jim Gilliland who is a long time adviser to Tennessee American and American Water with regard to media relations, and he is here in Chattanooga. Again I want to thank you for the opportunity to come and talk to about Tennessee American Water and about the local water company. In fact we are your local water provider, we have been here for many, many years. Service, the water service in Chattanooga is very important. And it is important to the economic growth, its important to the economy, its important to health and safety. So we take that responsibility very, very seriously. But at the same time we also want to make sure that today we explain to you and help you understand that there is a true value and a true cost providing service. Water service and Utility service. And as you have reported previously, we have filed a general rate increase application with the TRA, the Tennessee Regular Board Authority. And that process, the process has begun and that's what we are doing filing that, that application will be reviewed. The process is a long process, about six months from start to finish. You all may know about the TRA, but the Tennessee Regulatory Authority is a state government agency. With four directors who preside over and review all investor owned utility request for rate applications or other regulatory type items. We are regulated by them as to price, terms of service, quality, and basically the standards by which we must operate our business. If we, anytime we need to adjust our price we must go through that agency, so that is the process. So we just wanted to make sure you are aware of that. We serve 75000 customers approximately here in Chattanooga, Hamilton County, Marion County. Three counties in North Georgia and have done that for over a century. Mike in a few moments will talk briefly about what the drivers are associated with as to why we need to ask for a rate increase. But that briefly is two things. Two major things. One is the continued capital investment in utility infrastructure. The second thing is the operating costs. Their associated with operating those investments and providing the service. I'm gonna speak briefly about those investments, those capital improvements. All water utilities are required to provide water that meets all state and federal drinking water standards. That is a major component of the assets of the capital improvements we make. Treatment plants, storage tanks, pipelines, firehydrance, water meters are just a basic part of our business. But for the most part you don't see that you don't see pipeline, you don't see meters, and so most of our infrastructure, most of our assets are underground. You can't see the treatment plant. You see a storage tank here and there. You see a fire hydrant on the corner, but I don't know if you necessarily associate that with the water utility as much as you may other services such as fire departments. But that's part of what we own, and we are managing, and we operate. So some of those investments over the last two years, Twenty Seven million dollars in additional capital improvements. As you know this community has been here a long time. The water utility has been here over 100 years. It is appropriate for water utilities all across this country to make investment in their systems to replace infrastructure as it ages. And

that is what we do. That's part of what we need to do to make sure we are prepared for economic development meeting service expectations and so we do that. A lot of pipeline investment in the last two years. It's about 53,000 feet, about 10 miles applied. Water utilities invest more per dollar of redwin, one of the most expensive investments in any utility infrastructure is water, and waste water. Because their buries, because it takes a lot to move that water. Source treatment, distribution, and consumption. A lot is made of the river. Are blessed to have the Tennessee river as our source supply, that is an asset of the state and of the citizens of Tennessee. But the delivery and the service is what we provide and that's why we have costs. Our customers tell us and we survey them regularly that, about 90% of our customers say they are completely satisfied with the service that they can receive and the dollar and the value they receive, and the water service they receive from Tennessee American. But as you know in these economic times costs are rising. We have costs of fuel, we have costs of energy. Energy has gone up tremendously for us and that is what we use to pump water. That's what we use to monitor equipment, that's what we use to do chemical fielding at our treatment plant. So all those energy costs must be done, and must be incurred, and we must continue to operate. No matter what the price is for that service that we have to incur. At this point I would like to just turn over to Mike and let him describe the drivers of this case and the operating expenses that are driving why we need to seek this increase. Thank you, John. Well first as John has just stated the company has made significant investment in capital improvements since our previous red case. And that's an increase of about 21.4 million dollars. Excuse me, when was your last rate increase? The last rate increase was affective May 22, of 2007, it was filed in November of 2006. The current case would not become affective until September 14th, 2008, at the earliest. And that would only be what the TRA eventually determines to be a fair and reasonable result. The increase in the cost of service and that's the term I define, and that's our all in costs to provide the service. In the rate making world, we call that our cost of service. The increase in cost of service due to the capital investment that we just talked about, is worth in this case about 2.4 million dollars. And I would just mention that imbedded within that are taxes that are related to plant and property. Such as property taxes that we as an investor owned pay. Theirs about 529,000 of increased property taxes and other local taxes that I call part or are related to the plant that we own within the state. And in Chattanooga and Hamilton County. So that's a very large part of the need to increase rates. That is, pipes as John has explained, plant, treatment plants, water treatment facilities, meters, everything that we have and we have to have a place to supply that service. In the operation of maintenance area there has been a 2.9 million dollar increase in our operation of maintenance expenses since what was approved in the previous rate case. And that, as John say's, is primarily related to two categories. Those categories are energy and petroleum related expenses. I'll categorize them that way. And the second area is dealing with the federally mandated pension contributions, there has been significant increase there. The electric cost is onset and is a very major part of our over all expenses. And we have a very diverse geographic service area here, so there is a lot of pumping to get it up the mountains and so forth in this area. As well as get it from the river to the ultimate customers house. It takes lots of energy to do that, our way of doing that is through electric power. Almost all of our facilities, all that we need do have diesel backups for when power outages occur. But over the last 13 months there have been five rate changes from the EPB. And I readily admit that the biggest part of that are simply pass thru's in the purchase power costs the EPB get from the TBA. And they have the ability to simply flow that through as soon as they get notification of the rate increase from TBA who supplies the Chattanooga electric power board.

That's a major cost increase in our business. We also experience significant increases in our chemicals that we need to treat the water, for gasoline costs to provide the service vehicles to provide the service. And as well as paving. All of those items are petroleum based products. Many of the chemicals we use are. In addition to that obviously the delivery of our materials are chemicals and so forth have went up significantly due to the cost of fuel. A lot of these kind of chemicals and things are not able to be obtained locally and therefore we have to have them shipped, and that's a cost we have to have. The total increase for power and petroleum base cost is, I've categorized them, it's about \$627,000 and that points to about 8.2% of our total increase.

The last area that I was gonna mention was the pension expense. In this case our requested pension expense represents an increase of about 1.36 million dollars over what we currently have imbedded in the rates that were approved a year ago. And it's a major reason for this rate increase. But I want to make it clear that that pension expense that we are requesting is a federally mandated minimum contribution to our pension plan. It's not well in excess of the federal minimum, it's not below it, it's the minimum that we can do and meet the ARISA laws put forth you know by the federal government for pension plans. Those are the major categories of expenses and investments that are driving the need for us to seek recovery and that have driven up our costs of service from the rates that were approved last May. And with that John, I will turn it back to you. Ok, thank you Mike. Well I guess the point again to reinforce what Mike has said here. There are valid reasons why water rate increase is necessary. And there are valid reasons why other utility increases have occurred. However the process we use is the Tennessee Regulatory Authority which is a very complex, very legalistic process. It takes, it involves attorneys, it involves engineers, it involves interested parties, it involves the TRA staff and all their experts, it involves the Attorney General's Office, "Consumer Advocate Division." Whereas a number of our other utility services in the community do not go to that level of scrutiny. They are not reviewed by an agency of the state before an increase occurs, and I am not saying that that's wrong, but I am simply saying we are doing this in a very public way because that is the process the consumer and most use to seek a rate change. And so that's how it works. And to the extent that EPB, or TBA, or any other utility has a different process. We see that that doesn't always seem to see the same public level of review, or scrutiny, or opposition. And we don't mean to beat up on that, but that is simply something we notice and we are, or we do see that as a difference. And we are not gonna apologize for the rate increase because it is what we need to do to operate this business responsibly. I got a fiduciary responsibility. Mike, who is treasurer of the company has a fiduciary responsibility to operate this business in a way that is appropriately run to meet the standards of the TRA, to meet our legal requirements, and to meet our financial obligations. And that's what we are charged to do and we are pleased to do that. We are proud of our record. Our employees work hard. This is a 24 hour day, 7 day a week, 365 day a year operation. So somebody is always at the water company cause that's just how it works. Because it has to be that way, and we understand that. The other thing we don't do is we don't put off capital investments. And because we don't put them off and we made the investment that is why costs rise. That is one of the reasons why costs rise. Because the capital investment we made today, replaces the capital investment that was made many years ago in a much lower cost then, but that asset, that investment we had worked well for us for 75 years. It needs to be replaced and the cost today have risen. This is not an evaluation of the company, this is recovery of costs. And that's all it is, it's a water arrangement. John, if I could add one thing to that, you know when John mentioned that we had responsibilities. Our philosophy, and we think the proper philosophy

in running a utility of the nature of ours is that we are not acting in the best interest of our customers, or our company, or our investors in our company if we put off media capital improvements. Or we don't have as much flexibility as some businesses would in that we have a public service obligation and we cannot put ourselves in a position where we are not meeting those service requirements or that public service obligation. That also is part of being regulated by agencies such as the environmental agencies, the health departments, or water quality and by the TRA. There are service standards we have to meet as part of that public service obligation. But we do not think that it's in the customers best interest to put off needed improvements to our system because what happens many times is that you do that you know your gonna have to do more of that in the future to replace your system. You let your infrastructure deteriorate. And our feeling, and our belief is in acting responsibly as managers of a water utility is that that cost our customers more in the long run. And plus the service levels could be suspect if you are not doing that in a responsible manner. So I just wanted to add that point to it, that we do have a responsibility to provide that service, and you know and we don't take filing a rate case lightly. It's not something to say well we need to file a rate case now, that's not how this works internally. I mean there is a lot of thought that goes into this. There are options. There's continually striving to be more efficient. Doing things the best we can, at the cheapest price we can within the limits of our public service obligations. And a rate case is the last resort, not the first thought. And I just wanted to put that out there. I'll just follow up on the capital investment piece one more time because I think that there is actually a study that the USEPA has done. Across the nation, for the entire United States that indicates the water and which water utilities are falling behind in their infrastructure replacement programs. That number now approaches 277 billion dollars that needs to be invested in a water utility system public and private between now and 2020. And if that isn't done then service will continue and the infrastructure will continue to deteriorate. And we want to make sure we are part of the solution. That we are doing our fair, that we are doing the right thing on a timely basis. We plan through this and we look ahead. We prioritize because there are always more needs than there are resources to continue to make, to invest every investment you would like to make in the system. But we make those prioritize investments to make sure we benefit the most customers at the lowest cost consistent with providing good service. And that is what our job is, that's how we view ourselves. And I guess to just kind of take a pause here for a moment. I wanted to make sure in the packet that you realize what we have given you. 1. I have given you a bid, for purposes for you to look at and we will ask you to publish, yea, to publish that please. And we have given you some highlights about the company, some statistical information, some background information to tell you what we do. How much some of the quantities and what the actual price of service is. I mean in this rate increase, what we have asked for is an increase from \$16.54 a month for residential customer to \$20.19 a month, or \$3.65 a month. That is encompassing all of the things that we have discussed that need to be done to bring us to conclusion for what we are doing here now at this time. Water is valuable to the community. It's valuable to consumers. We have to provide a safe product. If we don't then we haven't done our job and our record here is stellar. We have never had a violation with the Safe Drinking Water Act in the 138 years we have provided service. And we want to keep it that way. But that is our obligation and as I say we've got very qualified people to do that. I feel very good and confident about our staff. I appreciate the hard work they put in. But it is, all it is, is a water increase. It's \$3. 65 a month, now that will all be reviewed in the date the determination we've made whether that's the increase or another amount will be. Or what the

decision will be and that will be made by the TRA. Your delivering water in less than a penny a gallon and want to go from 16 to 20 for the average month bill? Yes. If Atlanta had water, what would its comparable cost be? Well, and I think that's a great question. The real difficulty is, it's nearly impossible to compare rates with any other water system. The reason is, sources are different, costs are different, geography is different, the age of the system is different. The complexity of the system is different and the challenges of the water quality are different where ever you are. Let me interrupt you. Sure. I would argue with that premise, but in Tennessee for instance Memphis draws water from a river, just as we do and Nashville does, and Knoxville does. Memphis actually gets theirs from groundwater. Yea, their in the groundwater system. But it is an available source? Yes. How do I rate currently compare to those utilities and how will they compare if the rate you ask for is granted? Sure. Well let me address that two ways. First of all directly to those other municipalities. Memphis, Nashville, Knoxville, and Atlanta, you may not have known that each of those utilities is now considering a rate increase for service. For much of the same reasons we are. Energy, infrastructure and the challenges of providing safe drinking water. Is their percentage of requested increase the same or lower increase? They are double digits. Well that didn't answer my question, excuse me. Well 17% Memphis. 19% Nashville. Atlanta is asking for 15% now with a consideration for next year. KUB Knoxville has indicated theirs is gonna be around 20 or 21%. And our percentage increase is? 20.58 requested. Now the other thing that I would just simply want to go on the record make sure that we've got straight is, I know that there has been mention that we have had two increases in 2 years. Or two increases in 1 year. Fact of the matter is we filed a case in November of 2006. That case was determined and the order was issued or the decision was made in May of 07. That increase occurred, it was \$1.87 a month. 12.2 %. We have filed an application. There has been no rate increase action on this request and there won't be until September. So the fact of the matter is there hasn't been two increases, there has been one increase, there is one pending and the decision will be made. And it won't be in a year, it will be in 17 or 18 months whatever the decision is made. But we don't make that decision. We rest on the premise that it is appropriate to go through the regulatory agency to get that. Back to my original question. Whatever the unit of measurement is, a thousand gallons? Yes. What is the current rate that we pay? And Knoxville, Memphis, Nashville, and even Atlanta pay? Sure. Let me and I don't know if you've seen this but is an independent study done by the firm in Memphis. They survey 452 water utilities. 256 responded, they only survey municipal. But Memphis, Knoxville, SoddyDaisy, eastside utility district and everybody who responded is in here. Memphis is lower. They've got groundwater, the treatment cost is lower. That's a portion that we must deal with because we have a merlish supply. Nashville, Knoxville, and Atlanta are very comparable. They are right there. Lower or higher. There right in the same, I mean we are talking about \$16.54. For instance eastside if we got everything we asked for we would be just about 3 pennies less than the eastside utility district here per month. Nashville, Knoxville, again after their rates change. Whatever that decision is which we make by the city council or utility board. We will all be in that same category of around \$20.00 a month. You can look at this and we have rates in this state for residential service go up to \$48.00 to \$50.00 a month. We have one utility in the area that has groundwater, their rates are less than \$10.00 a month. But there's differences and as I say it's not an easy answer to answer that question because you have to take all factors into consideration. John, Nashville said that the last change they had was 99. With a 5% decrease and I guess. Yea, yea, well you know. It's a. I know the folks in Nashville, Metro Water, and a they have again identified they need to make more

infrastructure investment. You think they are pretty far behind on that or? Well I don't have a real crystal ball of what they have to do and all there is, but I do know they have frequent plant issues at this time that they identified during last summer. And they are going to study that. But infrastructure of utilities that are as old as we are continue to be addressed and a treatment vise lasts along time. Ours was built in 1894. But it gets back to what I said earlier, I mean you know you can delay those things from a pure financial stand point and impact our customers. That's not always the cheapest answer. And like John said, Nashville have publicly stated they had some real problems meeting the service levels and even the quantity of water last summer. Of course here we have not had that problem. We think regular investments, replacing our systems as they get to the end of their useful life and doing that in a systematic and prioritize way. In the long run it's the best and most reasonably priced way to do it for our customers. Instead of avoiding what is the obvious needs to be replaced. The regulatory agency is notorious for not granting your initial increase but I assume, and I don't know what the number is but at least at half the time they cut it significantly. I am not aware that they have ever rejected one out right. You have made a pretty strong case here that you can't operate unless you get this increase or you can't operate in the level of efficiency that you consider adequate unless you get this increase. What if they come back and award you only a fourth of your request? Are you going out of business? (laughter). Well it's pretty close to a rate issue, Tom. Yes it's a rate issue. We strongly believe and we are not embarrassed. We think it's absolutely reasonable that the cost that we have put in this rate case are supportable. And it's our, as a company, it is our burden of proof to go to Nashville and the TRA and show them that. I am certain having been in this business for 32 years and through lots of rate cases in lots of states that there will be parties who intervene that will not agree on some of these major issues. Generally the investment is not that big of an issue. I mean it's pretty clear. We have either built things and replaced facilities or we haven't. The operation of maintenance expenses again will be pretty clear cut. There was disagreement about the pension expense in the last case. And that is the process whether we like it or we don't like it, and we have no problem with the process. Well the question was. What if the process comes back and says you get a 5% rate increase instead of what you have requested? Are you going out of business? Are your level of service no good today? No. We will reevaluate what we need to do in light of that. We may decide that there is an appeal process. There is also the ability to file another case and again come back in and ask for it like before. But I mean the process has worked in Tennessee to provide the level of cost that's necessary for the company to continue to make investment. Applied by the level of service at a reasonable cost. This is still the lowest priced utility here in Hamilton county. Water is less than sewer, is less than phone, is less than cable, is less than gas, is less than electricity, and we want to keep it that way. But we do know we have to make investment to keep service good for our customers. And they have told us that's what they want. So we understand what our customers are telling us, and we listen to that very clearly. That's what the regulator wants us to do is provide good service and that's exactly our mission. In your example, we do not think that would be a reasonable resolve. But if in hypothetical world, if that were the resolve, we're not going out of business, ok. We may have to reevaluate what we're doing. What our prioritize are and adjust accordingly. But at the end of the day we still are a public utility, with a public service obligation. We can't simply walk away from the obligation. John's exactly right, I mean you adjust to the extent that you possibly can but inside that public service obligation the flexibility is not great. So therefore the alternative is we would have to go back and evaluate what we're doing, reassess it and potentially file another rate case if that's the ultimate decision. But no

there is absolutely no way that this company is simply gonna walk away from it's public service obligation, that's not an option. John, what would you say without the IPO issue and the timing back one siding went the rate increase? Well let me first say that because of the SCC regulations and I being the president of this company "Tennessee American". The American IPO is something that is fairly strictly regulated and my comments regarding that have to be very confined because we are in a quiet period. And that quiet period will continue till such time as whatever happens with the IPO happens. And to some extent, Mike you may want to address how that has any impact on Tennessee American, if any. Let me make sure I understood your question. You know, people would say the timing. Is it a factor? Absolutely. Let me say this. In regards to the timing in this rate case. In regards to the IPO. There is absolutely no correlation. That is not the reason we are filing this rate case. What this rate case is about is exactly what we told you. Each of the states of American Water Works are regulated by public service commissions, TRA's, SCC, different names. But it is essential to the public utility commissions. Every one of those states. Each one of those states sets the cost of service for each one of their utilities based on their cost of service. And the reason that we are filing this rate increase is because we have a significant increase in our cost. Significant investments that we've made have not been recognized for rate recovery yet. And we think what is in the best interest of our customers and our company, and our investors is when you are in that situation seek the proper rate recovery for those expenses. What that permits us to do is like any other business. We still have to attract capital in order to do these investments. If for example you in your personal life or me. If we have the option and have some money and we want to invest in a CD, and we have two banks on Broad street, or wherever in Chattanooga, Tennessee. And one is paying 6, and one is paying 6 and a quarter, your likely gonna invest at the 6 and a quarter. Well it's no different from an investor in American Water Works or an investor in any other business. We have to be able to provide a rate of return on that capital that's at least commensurate with companies of similar risk. If Tennessee Americans return is 2%, and American Water Works or any other investor. I don't know limit this to American Water Works. This is basic business practice. You know we are not gonna be able to attract the capital if that's where we sit. And that's not in our customers best interest, and it's not in our investors best interest, and it's not in anybody's best interest. So you know, when John talked about our fiduciary responsibilities managers is we need the key. Tennessee American in a strong financial position and a strong operational position. And a strong financial position because we have to make, we feel, there are significant investments in this utility that need to be made in order to attract that capital of reasonable cost, we have to keep this company in reasonable financial condition. And the only way we do that with these costs which we can not eliminate. We can not control the cost of gasoline and petroleum products, or the electric power board. When those things occur our only option at that point, if we can't offset them, which we can't. Is to seek a rate increase. But whether or not, your intent is through this increase is to you know affect the out come or increase the value of the company prior to the initial public offering. Clearly there is some public suspicion that that is the case. I mean at the county commission meeting this morning. You know there was some really tough questions about just what is behind this rate increase. You know is the rate increase so urgently needed that it has to happen right now? And not after the IPO is made? Well the answer to that is no different than what I said this morning. Is that again I will say that the reason this rate case is being filed is not anyway related to that IPO. In fact to reiterate what I said this morning is the S-1 has been filed. If you looked at a public website of the SCC you can see that. You can see the latest version includes pricing and the

estimated number of shares. Which in itself is a message that the IPO is proceeding along very well. We would expect barring any major things that that's gonna happen in the very near future. I can't give you a date for that. I don't know and if I did know I would be precluded from telling you that. But I feel certain at this time that's gonna happen well before the final decision. This rate case is gonna happen in September, and we have no idea what the outcome of this rate case is gonna be in September. So therefore to say we are only doing it for something that is being priced now. We won't know the result for 6 months from now, I cannot. And I feel absolutely comfortable in saying those are not related. That is not the reason for this rate increase. Well given that and some of the other topics that came up during the county commission meeting either the suggestion that the city be allowed to buy the company or some of the other suggestions that were made about debt and RWE. I mean, do you, do both of you feel that you were given a fair shake this morning at the county commission meeting? Or did you feel like you got you know kind of sandbagged with these questions? I was not surprised about the meeting or the result. I respect what the commissioners are doing because they are representing the citizens and the taxpayers, their constituents. We are gonna continue to talk to the commissioners and the city council about the need for the increase. This is the beginning of the process not the end of the process. And I understand that nobody likes a rate increase. I mean that's just the fact of the matter is nobody likes a rate increase. We don't like having to incur the cost and go through the process because it is a time consuming process. But it is what we do and we know how to do that and we are doing what we're supposed to do. Whether or not we are doing an IPO with American Water Works, or American Water Works doing an IPO. We would still be seeking a rate increase just for what we are asking for here. All things being equal. And if I could add to that John, I mean from my perspective, I think there is a misunderstanding about it in the eyes of our customers about what this is all about. Maybe even in your eyes. And that's really the reason that we are here today. We think it's our responsibility as utility managers to be here and explain our business to you the best we can. And explain it to the customers the best we can. And tell people about our business and why we are doing what we are doing. I won't go so far as to call it education but we are trying to make people aware of that. To be quite honest with you that's why we are sitting here in this meeting right now is we want you to know how we feel about it. And you know to the extent there is misconceptions about what we're doing or why we are doing it. We would like to clear those up. But you know from our perspective, you know the comments about the IPO or whatever being the reason that we are filing this rate case. I can't be more clear than that to me, and I am intricately involved in this as I was the process to get to the vestature approved in 6 of our or at least, I'm sorry not 6 but 4 of our states across American Water System. These two things are not related. It's about what we are telling you. It is recovering a cost because we think that is what we should do to keep this Utility, Tennessee American strong from a financial standpoint and an operational standpoint. And we believe that is what is in the best interest of our customers in the long run. Well a lot of your customers, are letters, and are calls, and are radio talk shows, and even the commission meeting and the city council meeting would argue that your interest is in maximizing dividends and profits for your shareholders and your owners. Is there anyway to quantify what percentage of your profits end up in shareholder and corporate pockets as apposed or some way as to how they directly affect your rate increase if you are. For instance, a public utility that did not have to pay that dividend. What would this increase be? I assume there is some program that you could run. First of all let me say that public utility and I assume you mean by that a municipally owned or utility district publicly owned. Their

not exempt from having to attract capital to finance their operation certainly. But they do it at a lower cost? In some ways, and there is arguments, there's big time differences in the way a public utility is financed and a private utility. And while public utility may have access to tax exempt debt there are strings attached to that that a. I don't want to get into the complications of that but there are different bond coverages. There are interest coverage ratios that are much different than us. And without a full blown analysis just to make a blanket statement that their cost of capital is always lower than a private utility. I don't agree with and I have been through this several times, but in our case you ask the question. How much did that do, and our general capital structure is 60% debt and 40% equity. That's generally how the American Water Works subs are financed. 60% is debt. We have bond indentures and so forth that we have to meet. Bond holders get paid that just like anyone else. What we do have within American Water Works is an outfit or a subsidiary, I'm sorry called American Water Works capital import. And what that entity does and we have demonstrated in many states across the country the reason that is the most efficient way to finance the subsidiaries of American Water is we pull the combined capital needs of all the subsidiaries. So that we get economies of scale from large public issues, issued in the public debt markets. That's a subsidiary and then we as Tennessee American simply get our piece of that very large public debt issue. It saves tremendously on issuance cost, lawyers fees, all the things associated with the issuing debt. So it does go there to American Water Works but eventually then they have to actually pay whoever bought those bonds through American Water Capital Corp. And obviously we have equity and the equity comes from our parent. Our stock holder is American Water Works. No different than most utility holding companies across the country. And the power industry, or the gas industry, or the phone industry, no different. We are the same. What are stated policy is that whatever our earnings are, and this is another point. We always talk about the TRA or someone will authorize us a rate of return or equity. Well that is what it is that is an authorization that is not a guarantee that that is what we are going to earn. And if our expenses don't match what we put in the last rate case. Just like we are talking about here now then we are not providing that return. And our option is to adjust our business the best we can and to the extent we can't then we have to seek a rate increase. But the fact is we pay our stated policy and it has been this way prior to RWE for my 30 years. After RWE and will remain after American Water Works is again a public ? company is to pay 75% of our earnings whatever that is as a dividend to our stockholder. Now I mean that's gonna be a different number depending on how we do in a particular year, good year, bad year. I mean we have in any year a very weather sensitive business to be quite honest with you. I mean wet years we don't do well. Dry years we do better. That's not a big factor here in Chattanooga, Tennessee. Not a lot of lawn water here, not heavy as you would see in some other areas of the country. For instance Arizona or California, but we are weather sensitive. We had some dry years, so are you doing better because of that? We did not see the kind of increase last year that you might have expected given the drought conditions. Why is that? Because this is an area that is not heavily influenced by outside water usage. Irrigation and other activities for instance if you use, lets use Phoenix, Arizona. Phoenix, Arizona a very dry climate. Any lawn irrigation is a daily event and it's on and on and on. And water utility bills in that part of the country can be as high as \$350.00 a month. Now I understand they use more water, but that's what your paying that's part of your whole household budget. But at the same token building codes, plumbing codes, the use of a low flush toilet in every residential home that's built today and retrofit of existing homes is going from a 7 gallon flush to a 1.6 gallon flush. There is discussion about water less appliances. There energy star

appliances. And so all of these combined to create conservation. And so water utility residential customer continue on a generalized basis to use less water because of efficiencies. And that's just part of what occurs in the demand cycle and market cycle. So last year how much was the demand for water versus the last couple of years. Well it's a trend downward for the last 30 years. And that's part of something we study in each case. I mean I realize that I am a rates person and if I get to technical please just tell me ok. But the way we do rate cases in Tennessee, and it's the policy of the TRA. And it's that you don't try to set rates on a high year or low year. What we do is a weather normalization. We hire an expert that comes in to our rate case and they look at the trends over the last 25 years. And they impact that by whatever like the parmer drought index is plus or minus. Drought condition on drought condition. And they also trend up for within that you know any decline in usage due to the conservation measures that John did. So what we are attempting to do, what the TRA's policy is you try to separate what you would say is a normal year. So we are at risk if there is a wet year. We could have an offset to maybe price increases that weren't included in the case if we had a dry year and the revenues were up. Maybe that would let us prolong a rate case for some period of time. But in the rate making process. The process is that there is a lot of expert statatichians that look at those kinds of things. The staff does it's own analysis of their usually similar drought indexes and so forth. But the process is to try to determine what is the trend and what would our usage be in a normal weather year. Do you try to take into consideration what the Tennessee Regulatory Commission might do? Like last year, I think they gave you a 12%, when you had asked for a 19%. So do you say well, you know do you take into consideration how much you really need versus the fact that you know they might not give you everything you asked for? Is there some pad built in there? Well I want to not use the word pad. We file our cases based on what we think our cost of service is. As I stated earlier there is gonna be disagreement with that. And yes, I mean to the extent when you file a case. Or when I file a case being a financial person I will discuss with John, the president here, in charge of local operations. We do risk assess. What may happen during that case. And I think history will tell you that you don't get 100%. There is gonna be positions taken on certain issues by the Consumer Advocate Office of the AG. Manufacturers Association will be representing the interest of the industrial customers. And at the end of the day there is likely going to be some give and take. But I certainly don't want to leave you with the impression that we simply pad a rate increase thinking that it is not deserved. That is not the process. That is not our thought process. We are not gonna win every issue, just like no lawyer is gonna win every issue in legal proceeding or a civil trial. I mean we understand that the process is likely gonna lead to some compromise from where we've been. Does Tennessee American and/or it's parent company lobby in instances like this? Do you? You mean do we lobby the TRA? Absolutely not. When we file a rate case, when we have an active proceeding before the TRA. There is a legal term called ex-parte communications. Just like with a judge we as a company or not permitted to have any discussion or contact with the TRA, or the staff who is also ex-parte for rate making purposes in Tennessee. So no, we can't have a conversation about issues with them off the record at all. Or outside the discovery process that we have to do this formerly. Those answers and questions are filed as part of the open records act. They are filed on their website at the TRA, but we precluded from having discussions with the directors or the staff. I have another question that is slightly off the topic of the rate increase. I noticed in this material it mentions that the water is distributed within the Tennessee river basin. Today in Nashville the senate passed, Senator Andy Burge of Chattanooga's resolution which was in response to the board of resolution coming out of the

Georgia legislature. And he gave kind of a speech about how he expects Tennessee to be in a long fight over Tennessee river water with Georgia. I mean I know that is a decision that ultimately will be made by government regulators, but do you have a view on that? Do you have an opinion? Well let me give you two thoughts. One is as you say we provide water within the Tennessee river basin. That is what we are legally obligated to do. There is a legislation on the books, a law in affect around transfers of water between river basins. And there are I think 10 river basins across Tennessee, and you are not permitted to transfer water out of a river basin into another basin for sale, for water distribution without the approval of the legal process that's necessary. We understand that. But our obligation is to provide service to the customers that are here. That's my first obligation. Is those in the Tennessee river basin that we serve here now, and is economic development occurs it's our obligation to step forward and provide that service. Tennessee American's obligation is not to resolve whatever the problem is in Georgia. We have a service area, that's the area we serve. Obviously that is an issue for the government and the D's in both states and other states. This is not something this is just happening between Tennessee and Georgia or it's happening around the country. We don't plan ourselves into the role with the United State's Supreme Court, just teasing. And we are not in that, I mean we are trying to fulfill our obligation the best way we know how. So certainly understand the issue. The Tennessee river is a valuable resource to this state. We need to protect it. John can you give these folks some sense cause you are an engineer, of the engineering challenges of moving that volume of water from this locale to Atlanta. Well we supply, our plant here is rated with the capacity of 65 million gallons of water a day. And that is the third largest treatment facility in the state. Atlanta if that would be the place that somebody wanted to talk about. Atlanta is a place that can use as much as 400 million gallons of water a day. There is no facility along the Tennessee river capable today of pumping water to Atlanta. There is no pipeline between here and Atlanta built or designed to provide that level of service. What we are talking about is something that would be almost akin to building 9 more of these treatment plants with multiple pipes, going over mountains. Using a tremendous amount of energy. And the real question is. So where shall we treat this water? Shall we treat here and then deliver it? Shall we treat it there and just take raw river water and move it that direction? Or are there other alternatives that need to be considered? Cause in my experience there is not just one solution. Multiple solutions need to be reviewed studied. Conservation, desalination, reuse, recycling, low flow devices, growth management. We believe what we are doing here is the responsible way to operate. We have addressed the growth. We make the infrastructure improvements so that growth as it occurs is not a, does not rise to a level of crisis. We want to make sure it stays that way and we're, you know even in the response to the county and the city we all do work together to provide that economic engine. As we are called upon to make sure our part of it is in place and we are glad to do that. How do you respond to complaints in a, I know I was speaking to one of the city leaders the other day just about something else. And he was surprised I'm not sure why because it's been this way for awhile that you can no longer walk to your building and walk in the door and talk to someone. It's locked and you can't make a payment there. It's not locked. The building is not locked. I hope this church stays open. (laughter) cause if it doesn't I'm gonna be on the phone. Hold on , hold on. It is true that we have scaled back the amount of customer walking traffic. We have somebody down there. It is not locked. You can walk in and you can talk to one of our employees about services or services if you are having a difficult time or you need to have some assistance. We're there. And you except payments as well? We do not except payments and the reason we don't except payments, just as

you know we also collect the sewer bill. We provide the billing services for the city and for other municipalities. And that is not part of this radio ?, that is just a collection service. Likewise there is an economy of scale if you want to pay your electric bill. Or you have some banking activity we've got 39 places right a block away that we have asked other agents to collect our bill for us. And our customers do not have any complaints about being able to pay in that method. You can do it online, you can do it by mail, you can call in, you can walk into an agency that has hours greater than our office hours. The 39 agencies just to be clear John they are spread throughout the service territory. Sure. The banks. Belfore Pharmacy, Kingwood Pharmacy down East ridge. He is asking about Sun trust. Sun trust, Sun trust still. We've got a list of them. First Tennessee maybe. And folks can call for service complaints, where are those calls answered? Well they are either answered are there are call centers. And those are available 24 hours a day, 7 days a week. But not local calls? Well they are answered through an 800 number in our call centers in Alton, Illinois, Pensacola, Florida. And those are very efficient. Their open more hours than we have ever been here in Chattanooga. They have been able to respond to emergency situations around the country. Where there has been weather events such as hurricanes or other natural disasters. Much more efficiently than we would have been able to do. And I would just like to mention that I've been involved with rate cases and the steps that have been obviously discussed in many of the rate cases and so forth. I think it's important that we remember prior to having a national call center for American Water Works across these 23 states. Tennessee American had a local call center, billing and so forth. But their office was open 5 days a week, 8 to 5. Now after that if you had an emergency they would take your call at the treatment plant. And only deal with emergencies. We have like John said now, it's a 24/7, 365 day operation. You can call at anytime and talk to someone. And the other issue that I think is important, or not issue but you know point to make is. And I've seen this, it's happened several times. If you really have an emergency in Chattanooga, Tennessee, or Charleston, West Virginia, or wherever. When you had your own call center you had a certain limit and you know there is so much of that you can afford. That if you really had an emergency like a winter storm or something of major, major main break, or your plant was shutdown. The call volume would be so heavy that you couldn't handle that. By having the economies scale of a national call center with several hundred phone reps available to do that. If you have an emergency the only place that we can now handle that much better. So there is lots and lots of benefits. Well then at the end of the day even in the TRA and the AG a couple of cases ago expressed some concern about our service levels. We on a monthly basis now provide them service metrics for the local operation here as well as that call center. Folks at the TRA and the AG's office are reviewing those service metrics for both operations. Local operations as well as the call center. And we are very proud of that information. I mean I suppose it's public record on the file at the TRA. We file them monthly. But at the end of the day and several cases ago, I mean you can go and see that. I think it would be the 2003 rate case. We were able to clearly demonstrate with a major increase in service. 24/7 all the things I have just talked about. We were able to actually do that cheaper than you were having a 5 day operation, 8 to 5 here in Chattanooga. So not only do we believe the service is better and if that's a misperception and the public, then we need to continue to address that because we have tried to do that. But we believe it's done much more efficiently at a lower cost and that's the fact of it. That's the reason American Water Works did it. And we think it's been very successful. Now like any startup operation back in 03 there were some blips and I'll be the first to admit that. But I think Americans worked very hard on a national basis to make that a first class operation at a very

reasonable cost. So I just wanted to put that out there for you. Mike, you mentioned earlier that 2.4 million dollars is going to taxes, property taxes that sort of thing. Would you explain a little along those lines. Well two things. Capital investment. Let's talk just a little bit of what I put in that category, ok. It was the kind of costs that are driven by that capital investment. First of all when we make an investment in a utility plan. The way rate making works. We're rate based oriented rate making process that's the way U.S. rate making works. And rate base is nothing more than your capital investment. Your utility plan, less the depreciation, less any contributing capital you might have from developers or ? we don't have to have these tho. So what then happens is their's , you have to recover capital costs associated with that which would be made up of the 60% debt, 20% equity. There is depreciation expense that will be attributable or related to that investment. And also that additional investment would generate additional property tax. Or property related taxes. So really that 2.4 million is made up of all those within the 2.4 there is 529,000 increase in the whole property and city, a county and city property taxes. Does that answer your question? Yea, the last five words there. I know it can be confusing with 2 and ½ million dollars in property taxes. No, no, no I'm talking about incremental increase. Ok. Well thank you for coming. Your welcome, thank you for having us.

We have the highest safety rating of "Satisfactory" from the US Department of Transportation

Champagne Limousines

Toll Free: 1-800-500-2526 Missouri : 314-567-5466 Illinois : 618-466-7001

[Home](#)[Limousines](#)[Reservations](#)[About Us](#)[Services](#)[Links](#)

Champagne Limousines has been providing luxury limousine service since 1984. We provide service to the entire St. Louis Metro-East area. Our goal is to provide dependable service at reasonable rates. Along with our limousine service, we provide sedan and van service to and from St. Louis Lambert Airport.

Our Fleet Consists of :

- * New Lincoln Town Car Limos 10, 12, & 14 Passengers
- * New Lincoln Navigator or Excursion Stretches
- * New Hummer H2 Stretches
- * Classic Rolls Royce Silver Cloud - Just For 2 Passengers - Add Class To Any Occasion With This Car!
- * New Model Sedans And Vans For Airport Service

Toll Free: 1-800-500-2526 Missouri : 314-567-5466 Illinois : 618-466-7001

Website created and hosted by:

getwebbed.net inc.

For website related comments or questions please email : Webmaster

We have the highest safety rating of "Satisfactory" from the US Department of Transportation

Champagne Limousines

Toll Free: 1-800-500-2526 Missouri : 314-567-5466 Illinois : 618-466-7001

[Home](#)

[Limousines](#)

[Reservations](#)

[About Us](#)

[Services](#)

[Links](#)



Champagne Limousines has been providing luxury limousine service since 1984. We provide service to the entire St. Louis Metro-East area. Our goal is to provide dependable service at reasonable rates. Along with our limousine service, we provide sedan and van service to and from St. Louis Lambert Airport.

Our Fleet Consists of :

- * New Lincoln Town Car Limos 10, 12, & 14 Passengers
- * New Lincoln Navigator or Excursion Stretches
- * New Hummer H2 Stretches
- * Classic Rolls Royce Silver Cloud - Just For 2 Passengers - Add Class To Any Occasion With This Car!
- * New Model Sedans And Vans For Airport Service

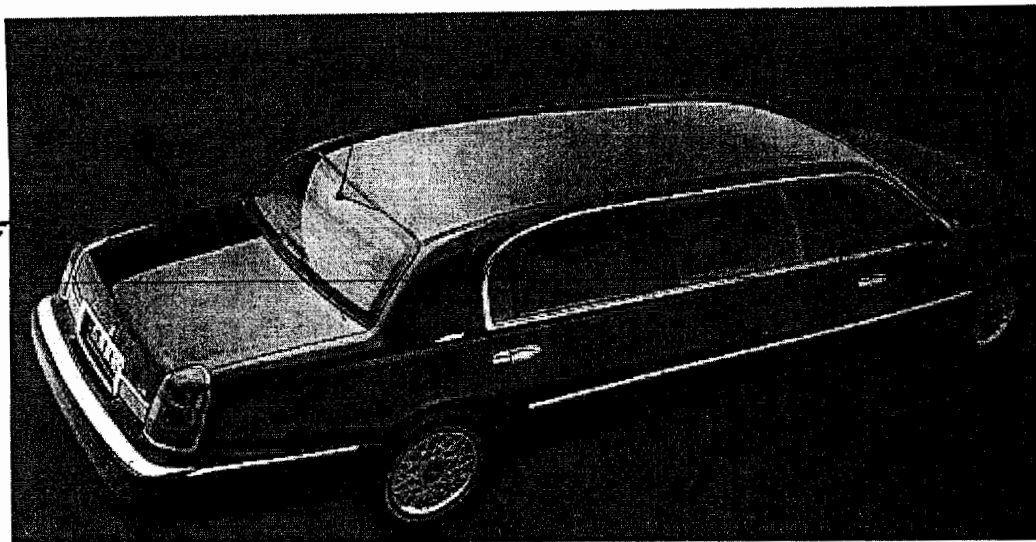
Toll Free: 1-800-500-2526 Missouri : 314-567-5466 Illinois : 618-466-7001

Website created and hosted by:

getwebbed.net inc.

For website related comments or questions please email : Webmaster

Monday, July 14, 2008



[Home](#) [Our Company](#) [Services](#) [Fleet](#) [Specials](#) [Online Quotes](#) [Contact Us](#)

NIGHT OUT SPECIAL NIGHT ON THE TOWN

Need a Designated
Driver?

Looking for safe,
reliable, no frills
transportation?

Try our new 14-
passenger VAN

Available for Night on
the Town

All area Airports

Wedding Shuttles

[Contact Us](#)

Welcome To Zark Limousines!

There are lots of limousine services in the Tri-State to choose from, but if you are looking for dependability, efficiency, and professionalism, then the only choice is Zark Limousine.

Zark Limousine is a family owned and operated, full-transportation service company.

Our fleet of luxury vehicles includes: Stretch Limousines, SUV Limousines, Lincoln Limousines, and Limousine Buses.

Luxury Vehicles

Have a look at our actual fleet of vehicles. [Click HERE!](#)



805 Creek Road

Tabernacle: 609-268-2100 Medford: 609-654-9339 Southampton: 609-859-5511 Lumberton: 609-914-0790

LEGGS LIMOUSINES

Serving Burlington, Camden, Gloucester, Atlantic & Philadelphia Counties.



SPECIAL OFFER!

Welcome

Weddings

Night Out

Airport

Prom Night

Gallery

Policies

Cool Links

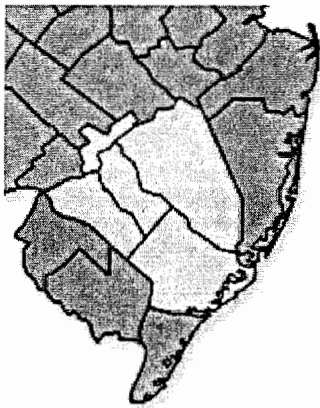
Welcome!

Welcome to Leggs Limousines. If you're looking for the best limo service for your wedding, prom night, or special night out, you've come to the right place. Leggs Limousines has been providing experienced, professional limo service to the Delaware Valley for years and we can deliver the level of excellence and perfection your special occasion deserves.

Make A Reservation

- Wedding Reservation
- Night Out Reservation
- Airport Reservation
- Prom Night Reservation

Leggs Limousines exclusively serves the following areas of the Delaware Valley:



NEW JERSEY
Burlington County
Camden County
Gloucester County
Atlantic County

PHILADELPHIA AREA:
Philadelphia County only.

Take an online tour of our interiors:

LEGGS INTERIOR VIEWER



SUBURBAN

STRETCH LIMO

LIMO BUS

EXCURSION

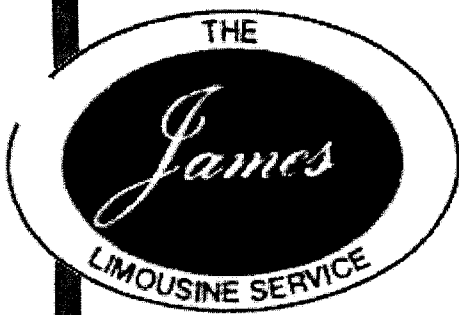
To see photos of the interiors of our suburbans, stretch limos, limo buses or excursions, simply roll your cursor over the round buttons on the right side of the viewer and it will display the photo inside of the screen on the left.



For your comfort, all Limousines are non-smoking.

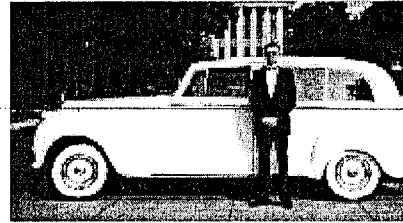
Welcome | Weddings | Night Out | Airport | Prom Night | Gallery | Policies | Cool Links

Tabernacle: Medford: Southampton: Lumberton:



Voted # 1 Limousine Service in America

By Limousine & Chauffeured Transportation Magazine



HOME

CORPORATE

WEDDING

RESERVATION

FLEET

FLIGHT CHECK

LINKS

CONTACT US

Serving the Tri-State Area:
New Jersey
Pennsylvania
Delaware

Call us today for all of your ground transportation needs.



(800) 332-1644 or (856) 424-6655 Copyright 2006. James Limousine

Programmed by Jersey Media © 2006.

Website: <http://www.voorheesnj.com>

Voorhees Township is a township in Camden County, New Jersey, United States. As of the United States 2000 Census, the township population was 28,126. Voorhees is a New Jersey suburb in the Greater Philadelphia Metropolitan Area.

Voorhees Township was incorporated as a township by an Act of the New Jersey Legislature on March 1, 1899, from portions of Waterford Township. Portions of the township were taken on March 8, 1924, to form Gibbsboro.^[7]

The township is named after Foster MacGowan Voorhees, the Governor of New Jersey who authorized its creation.^[8]

The area comprises the Ashland, Kirkwood, Kresson, Glendale, and Osage sections.^[8] Voorhees is largely a bedroom community, with many of its residents commuting to Cherry Hill or Philadelphia for work.

(Contents

- 1 Geography
- 2 Demographics
- 3 Government
 - 3.1 Local government
 - 3.2 Federal, state and county representation
- 4 Education
- 5 Transportation
- 6 Corporate residents
- 7 Notable residents
- 8 References
- 9 External links

Geography

According to the United States Census Bureau, the township has a total area of 11.6 square miles (30.1 km²), of which, 11.6 square miles (30.0 km²) of it is land and 0.04 square miles (0.1 km²) of it (0.26%) is water.

Echelon is a census-designated place in the western part of the township between Cherry Hill and Gibbsboro.

Voorhees borders the Camden County communities of Berlin Township, Cherry Hill, Gibbsboro, Lindenwold, and Sordale. To the east is Evesham Township in Burlington County.

Demographics

As of the census^[4] of 2000, there were 28,126 people, 10,489 households, and 7,069 families residing in the township. The population density was 2,424.0 people per square mile (936.2/km²). There were 11,084 housing units at an average density of 955.2/sq mi (368.9/km²). The racial makeup of the township was 78.26% White, 8.00% African American, 0.14% Native American, 11.44% Asian, 0.03% Pacific Islander, 0.55% from other races, and 1.59% from two or more races. Hispanic or Latino of any race were 2.47% of the population.

There were 10,489 households out of which 37.0% had children under the age of 18 living with them, 57.0% were married couples living together, 7.9% had a female householder with no husband present, and 32.6% were non-families. 26.9% of all households were made up of individuals and 8.5% had someone living alone who was 65 years of age or older. The average household size was 2.60 and the average family size was 3.23.

In the township the population was spread out with 26.4% under the age of 18, 6.3% from 18 to 24, 31.8% from 25 to 44, 24.6% from 45 to 64, and 10.9% who were 65 years of age or older. The median age was 37 years. For every 100 females there were 92.4 males. For every 100 females age 18 and over, there were 87.8 males.

The median income for a household in the township was \$68,402, and the median income for a family was \$86,873. Males had a median income of \$58,484 versus \$38,897 for females. The per capita income for the township was \$ 35. About 3.7% of families and 5.7% of the population were below the poverty line, including 5.7% of those under age 18 and 11.1% of those age 65 or over.

Historical populations		
Census	Pop.	%±
1930	1,405	—
1940	1,450	3.2%
1950	1,823	25.7%
1960	3,784	107.6%
1970	6,214	64.2%
1980	12,919	107.9%
1990	24,559	90.1%
2000	28,126	14.5%
Est. 2006	29,391 [3]	4.5%
Population 1930 - 1990 ^[9]		

Government

Local government

The Township of Voorhees is governed under the Township form of New Jersey municipal government by a five-member Township Committee. Members are elected at large in partisan elections to three-year terms in office on a staggered basis, with one or two seats coming up for election each year.^[10] The Mayor and Deputy Mayor are chosen by the Township Committee from among its members during the Reorganization meeting each January.

The current mayor is Michael R. Mignogna (D). Other members of the Voorhees Township Committee are Deputy Mayor Mario DiNatale, Joseph C. Lovallo II, Dean T. Mazurek and Harry A. Platt.^[1]

Federal, state and county representation

Voorhees Township is in the First Congressional District and is part of New Jersey's 6th Legislative District.^[11]

New Jersey's First Congressional District, covering portions of Burlington County, Camden County and Gloucester County, is represented by Rob Andrews (D, Haddon Heights). New Jersey is represented in the Senate by Frank L. Lautenberg (D, Cliffside Park) and Bob Menendez (D, Hoboken).

For the 2008-2009 Legislative Session, the 6th District of the New Jersey Legislature is represented in the State Senate

by John Adler (D, Cherry Hill Township) and in the Assembly by Louis Greenwald (D, **Voorhees Township**) and Pamela Rosen Lampitt (D, Cherry Hill Township).^[12] The Governor of New Jersey is Jon Corzine (D, Hoboken).^[13]

Camden County is governed by a seven-member Board of Chosen Freeholders, elected at-large for staggered three-year terms by the residents of the county.^[14] As of 2008, Camden County's Freeholders are Freeholder Director Louis Cappelli, Jr. (http://www.camdencounty.com/government/elected/el_cappelli.html) (Collingswood, term ends December 31, 2008), Freeholder Deputy Director Edward McDonnell (http://www.camdencounty.com/government/elected/el_mcdon.html) (Pennsauken Township, 2010), Riletta L. Cream (http://www.camdencounty.com/government/elected/el_cream.html) (Camden, 2008), Rodney A. Greco (http://www.camdencounty.com/government/elected/el_greco.html) (Gloucester Township, 2009), Jeffrey L. Nash (http://www.camdencounty.com/government/elected/el_nash.html) (Cherry Hill Township, 2009), Joseph Ripa (http://www.camdencounty.com/government/elected/el_ripa.html) (**Voorhees Township**, 2009) and Carmen Rodriguez (http://www.camdencounty.com/government/elected/el_rodriguez.html) (Merchantville, 2010).^[15]

Education

Students in Kindergarten through eighth grade attend the Voorhees Township Public Schools. Schools in the district (with 2005-06 enrollment data from the National Center for Education Statistics^[16]) are four elementary schools serving grades Kindergarten through fifth grade — Edward T. Hamilton Elementary School (<http://www.voorhees.k12.nj.us/ethamiltons/site/default.asp>) (571 students), Kresson Elementary School (<http://www.voorhees.k12.nj.us/kressons/site/default.asp>) (470), Osage Elementary School (<http://www.voorhees.k12.nj.us/osages/site/default.asp>) (632), and Signal Hill Elementary School (<http://www.voorhees.k12.nj.us/signalhills/site/default.asp>) (552) — and Voorhees Middle School (<http://www.voorhees.k12.nj.us/voorheesms/site/default.asp>) with 1,184 students in grades 6 - 8.

Public school students in grades 9 - 12 attend the Eastern Camden County Regional High School District, a limited-purpose, public regional school district. Schools in the district (with 2005-06 enrollment data from the National Center for Education Statistics^[17]) are Eastern Intermediate High School with 1,135 students for grades 9 and 10, and Eastern High School with 1,099 students for grades 11 and 12. The schools serve a combined population of approximately 37,000 in the communities of Berlin Borough, Gibbsboro and Voorhees Township. Both schools are located on the same site, but operate independently.^[18]

Transportation

The only major highway that passes through Voorhees is Route 73. Interstate 295 and Route 70 provide access to nearby Philadelphia via Cherry Hill. Exit 32 of Interstate 295 is partially signed for Voorhees, though motorists can also use exits 29A (U.S. Route 30/Berlin), 31 (Woodcrest Station) or 36 (Route 73) to access parts of the township.

One station on the PATCO High-Speed rail system, Ashland, is located within township limits, but the Woodcrest and Lindenwold stations are also easily accessible to many residents.

New Jersey Transit bus service is offered on the 403 to Philadelphia, with local service provided by the 451 and 459 routes.^[19]

Corporate residents

New Jersey American Water, based in Voorhees Township, is the largest water utility in New Jersey, serving over two

million people in 176 communities throughout the state. New Jersey American Water is a wholly-owned subsidiary of American Water.

Notable residents

Notable current and former residents of Voorhees Township include:

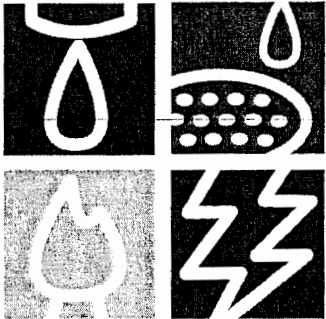
- Ron Anderson (1958-), played on several NBA teams, as well as in Europe.
- Barrett Brooks (1972-), offensive tackle for the Pittsburgh Steelers.^[20]
- Jeff Carter (1985-), plays on the Philadelphia Flyers.
- Sarah Chang (1980-), violinist.^[21]
- Brian Dawkins (1973-), plays on the Philadelphia Eagles.
- Josh Farro, birthplace for guitarist of pop-punk band Paramore.
- Zac Farro, birthplace for drummer of pop-punk band Paramore.
- Simon Gagné (1980-), plays on the Philadelphia Flyers.
- Scott Graham (1965-), former sports broadcaster for the Philadelphia Phillies.^[22]
- Louis Greenwald (1967-), represents the 6th legislative district in the New Jersey General Assembly.^[23]
- Ryan Howard (1979-), plays with the Philadelphia Phillies.
- Ron Jaworski (1951-), formerly played on the Philadelphia Eagles.^[24]
- John LeClair (1969-), played on the Philadelphia Flyers.
- Eric Lindros (1973-), former player of the Philadelphia Flyers.
- Craig MacTavish (1958-), former NHL hockey player.^[25]
- Raoul Peck (1953-), award-winning Haitian filmmaker.^[26]
- Todd Pinkston (1977-), formerly played on the Philadelphia Eagles.
- Keith Primeau (1971-), played on the Philadelphia Flyers.
- Adam Taliaferro (1982-), played on the Penn State Nittany Lions football team.^[27]
- John Vukovich (1947-2007), former MLB third baseman, best known for his career with the Philadelphia Phillies.^[28]
- Clarence Weatherspoon (1970-), played on the Philadelphia 76ers.

References

- ↑ ***a b*** 2008 Committee Members (http://voorheesnj.com/content/commembers/), Voorhees Township. Accessed May 20, 2008.
- ↑ USGS GNIS: Township of Voorhees (http://geonames.usgs.gov/pls/gnispublic/f?p=gnispq:3::NO::P3_FID:882153), Geographic Names Information System. Accessed January 4, 2008.
- ↑ ***a b*** Census data for Voorhees Township (http://factfinder.census.gov/servlet/SAFFPopulation?_event=Search&geo_id=16000US3471220&_geoContext=01000US%7C04000US34%7C16000US3471220&_street=&_county=voorhees&_cityTown=voorhees&_state=04000US34&_zip=&_lang=en&_sse=on&3Anull&_keyword=&_industry=), United States Census Bureau. Accessed August 8, 2007.
- ↑ ***a b*** "American FactFinder (http://factfinder.census.gov/)". United States Census Bureau. Retrieved on 2008-01-31.
- ↑ A Cure for the Common Codes: New Jersey (http://mcdc2.missouri.edu/webrepts/commoncodes/ccn_j.html), Missouri Census Data Center. Accessed July 14, 2008.
- ↑ "US Board on Geographic Names (http://geonames.usgs.gov/)". United States Geological Survey (2007-10-25). Retrieved on 2008-01-31.
- ↑ "The Story of New Jersey's Civil Boundaries: 1606-1968", John P. Snyder, Bureau of Geology and Topography; Trenton, New Jersey; 1969. p. 109.
- ↑ ***a b*** History of Voorhees (http://voorheesnj.com/content/history/), accessed May 8, 2007. "Over the years six "neighborhood" communities took root; Ashland, Glendale, Kirkwood, Kresson, Osage and Gibbsboro. Residents held strong loyalties to these sections of town, rather than to the town itself. One result of this divisive attitude was Gibbsboro's secession from Voorhees in 1924.... Since Governor Foster McGowan Voorhees granted the request, the township was named in his

Annual Report 2007

KUB



ANOTHER 100 YEARS



WATER >>>

Enhancing the Quality of Life

Water is the essence of life and vital to our quality of life. The Centers for Disease Control lists tap water as one of the greatest health advancements of the 20th Century.

The aging infrastructure that delivers water, however, is a growing concern nationwide. Like many of the nation's water systems, KUB's system was built nearly 100 years ago for a smaller population. Today, it must serve our growing community and meet new regulatory requirements as it ages.

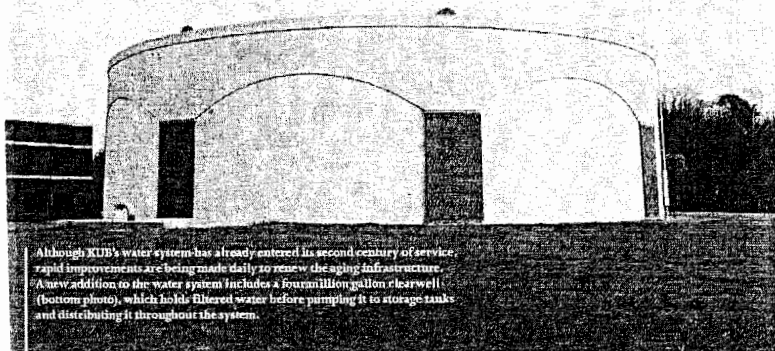
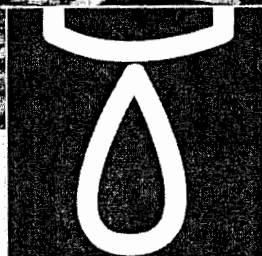
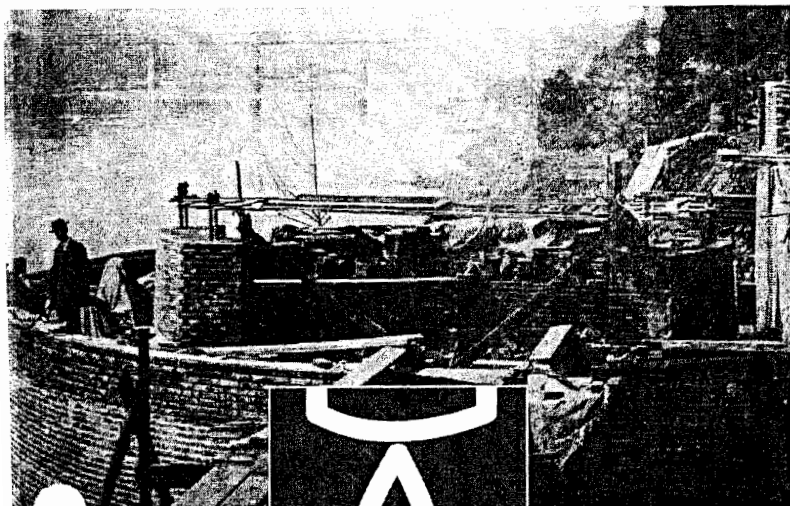
Since 1990, KUB has focused on maintaining water distribution pipes and upgrading water tanks and the treatment plant. Completed projects include a high-service pump station and four million gallon (MG) clearwell. Planned projects will upgrade filtration facilities and add a new low-service pump station and another 4 MG clearwell.

KUB also has been replacing five miles of water pipes a year for a decade. At that pace, however, it would take 300 years to upgrade the system. Given our system's age, it's time to start replacing aging pipes much more quickly.

Century II, a long range infrastructure management and replacement program for all KUB utility services, will initially focus on replacing aging water pipes. The five mile pace will increase to about 14 miles over the next several years, with the ultimate goal of replacing 1 percent per year. Century II is designed to be an investment in our next 100 years of quality service - and in the quality of life in our community.



Above: Every year, KUB participates in Janna Nature Center's Waterfest - a day of education and activities for children from area elementary schools. KUB employees teach students about the water system and water quality. KUB also donates H₂O to Go (KUB's very own bottled water) to the event.



Although KUB's water system has already entered its second century of service, rapid improvements are being made daily to renew the aging infrastructure. A new addition to the water system includes a fourmillion gallon clearwell (bottom photo), which holds filtered water before pumping it to storage tanks and distributing it throughout the system.

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2007 and 2006 (in Thousands)	Electric Division		Gas Division		Water Division		Wastewater Division	
	2007	2006	2007	2006	2007	2006	2007	2006
Operating revenue	\$ 427,078	\$ 404,759	\$ 137,340	\$ 141,653	\$ 30,799	\$ 20,994	\$ 52,206	\$ 41,281
Operating expenses:								
Purchased power	341,696	319,810	■	■	■	■	■	■
Purchased gas	■	■	103,408	109,326	■	■	■	■
Water treatment	■	■	■	■	2,999	2,792	■	■
Wastewater treatment	■	■	■	■	■	■	8,792	8,105
Distribution	22,464	18,581	5,469	4,795	10,683	9,648	■	■
Collection	■	■	■	■	■	■	7,186	5,876
Customer service	5,382	5,433	2,179	2,213	1,724	1,857	1,517	1,647
Administrative and general	15,791	15,011	6,350	6,538	5,761	4,877	5,486	5,232
Provision for depreciation and amortization	20,016	17,881	8,067	7,087	5,928	5,277	8,419	6,285
Taxes and tax equivalents	11,166	10,995	5,305	5,706	2,640	2,522	2,591	2,810
Total operating expenses	416,517	387,720	131,278	135,666	29,732	28,619	36,332	29,955
Operating income	10,569	17,039	6,062	5,985	1,065	2,375	15,873	11,326
Nonoperating revenue (expenses):								
Contributions in aid of construction	2,764	2,864	632	937	616	658	697	867
Interest and dividend income	3,734	2,558	1,595	1,090	804	820	2,509	3,512
Expense	(5,332)	(4,893)	(4,275)	(3,722)	(1,887)	(1,942)	(8,783)	(6,229)
Other contributions	■	■	■	■	863	1,173	3,060	4,056
Write-down of plant for costs recovered through contributions	(2,764)	(2,864)	(632)	(937)	(616)	(658)	(697)	(867)
Other	(118)	(436)	(122)	(1,022)	(247)	(137)	(119)	(210)
Total nonoperating expenses	(11,616)	(2,773)	(2,902)	(3,706)	(847)	(860)	(3,226)	(447)
Change in net assets	9,943	14,266	3,260	2,281	418	1,935	14,649	10,849
Net assets, beginning of year	236,973	222,706	130,495	128,214	121,736	122,801	159,606	147,759
Net assets, end of year	\$ 246,917	\$ 236,974	\$ 133,755	\$ 130,495	\$ 122,154	\$ 124,736	\$ 174,255	\$ 158,608

Electric Division

The Electric Division's net assets increased \$8.9 million or 3.8 percent, compared to a \$14.3 million increase last fiscal year. Margin on power sales (operating revenue less purchased power expense) increased \$0.4 million or 0.5 percent, due to higher sales volumes over the prior year.

O&M expenses increased \$4.6 million or 11.8 percent from the prior year. The rise in expense is primarily due to a lead-paint remediation project at a storeroom/warehouse facility located at the Hoskins Operations Center. The Division incurred approximately \$2.5 million of the total \$5 million shared cost of the project. The remainder of the increase is partially due to a \$1.3 million rise in labor and pension expense compared to the prior year. Depreciation expense increased \$2.1 million or 11.9 percent, due to increases in plant in service. Tax equivalent payments increased \$0.2 million or 1.6 percent compared to the prior fiscal year.

Interest income rose \$1.2 million due to a 19.8 percent rise in the average monthly general fund cash balance compared to the prior year. Interest expense increased \$0.4 million or 9 percent as a result of bonds issued in the prior fiscal year. As of June 30, 2007, the Electric Division had \$306.7 million invested in capital assets (net plant in service), representing a net increase (including additions, retirements, and depreciation) of \$17.2 million or 5.9 percent over last fiscal year.

Long-term debt represented 31.8 percent of the Electric Division's capital structure as of June 30, 2007, compared to 31.2 percent last year.

Water Division

The Water Division's net assets increased \$0.4 million in fiscal year 2007, as compared to \$1.9 million last fiscal year. Operating revenue increased \$1.8 million or 6.2 percent, the result of a full year of revenue from a 7 percent rate increase in April 2006.

O&M expenses increased \$2 million or 10.4 percent, due in part to a lead-paint remediation project at a storeroom/warehouse facility located at the Hoskins Operations Center. The Division incurred approximately \$0.8 million of the total \$5 million shared cost of the project. A \$0.7 million rise in labor and pension expenses and a \$0.2 million rise in expense for street cuts related to water main repairs contributed to the overall increase. Depreciation expense increased \$0.6 million or 12.3 percent due to increases in plant in service. Tax equivalent payments rose \$0.1 million or 4.7 percent due to an increase in net plant in service from the prior year.

Interest income was consistent with the prior fiscal year. Interest expense decreased \$0.1 million or 2.8 percent, as the Division repaid \$2 million in long-term bonds during the fiscal year.

As of June 30, 2007, the Division had \$143.2 million invested in capital assets (net plant in service), an increase of \$5.8 million or 3.7 percent over the end of the last fiscal year.

Long-term debt represented 24.1 percent of the Division's capital structure as of June 30, 2007, as compared to 25.1 percent last year.

Gas Division

The Gas Division's net assets increased \$3.3 million in fiscal year 2007, as compared to a \$2.3 million increase last fiscal year. Margin on gas sales rose \$1.6 million or 5 percent due to higher sales volumes.

O&M expenses increased \$0.5 million or 5.3 percent primarily due to a lead-paint remediation project at a storeroom/warehouse facility located at the Hoskins Operations Center. The Division incurred approximately \$0.9 million of the total \$5 million shared cost of the project. Depreciation expense increased \$1 million or 13.8 percent, due to increases in plant in service. Tax equivalent payments rose \$0.1 million or 1.6 percent primarily due to increased net plant value from the prior year.

Interest income increased \$0.5 million primarily due to higher overall cash balances. Interest expense was up \$0.6 million or 14.8 percent due to the issue of revenue bonds in April 2006. As of June 30, 2007, the Gas Division had \$182 million invested in capital assets (net plant in service), an increase of \$4.8 million or 2.7 percent over the end of the last fiscal year.

Long-term debt represented 38.5 percent of the Division's capital structure as of June 30, 2007, compared to 40 percent last year.

Wastewater Division

The Wastewater Division's net assets increased \$14.6 million in fiscal year 2007, as compared to \$10.8 million last fiscal year. Operating revenue increased \$11 million or 26.6 percent, the result of a 50 percent rate increase effective January 2007 to help fund PACE 10 improvements.

O&M expenses increased \$2.3 million or 10.2 percent, primarily due to a lead-paint remediation project at a storeroom/warehouse facility located at the Hoskins Operations Center. The Division incurred approximately \$0.8 million of the total \$5 million shared cost of the project. The Division funded \$0.5 million for the Supplemental Environmental Project (SEP) also contributing to the rise in O & M expense. Depreciation expense increased \$2.1 million or 34 percent due to a full year's depreciation on \$24.5 million added to plant in service in the prior year. The Division recorded depreciation expense for portions of the year on \$113 million in plant additions in fiscal year 2007. Tax equivalent payments rose \$0.1 million or 4.3 percent.

Interest income decreased \$1.4 million as a result of the high level of cash investments in the prior fiscal year associated with unused bond proceeds. Interest expenses increased \$0.8 million.

As of June 30, 2007, the Division had \$347.3 million invested in capital assets, an increase of \$64.4 million or 23.7 percent over last year.

KUB issued a two-year, \$75 million revenue anticipation note for the Wastewater Division during the fiscal year to fund capital expenditures and maintain adequate cash flow prior to the Division's next long-term bond issue in fiscal year 2008. As of June 30, 2007, the Division had drawn down \$12.8 million to fund capital improvements.

Long-term debt represented 54 percent of the Division's capital structure as of June 30, 2007, as compared to 54.8 percent last year.

Book a Tee Time

Shop Online

**CLICK HERE FOR
ON-LINE SPECIALS**



Home

Course Details

Junior Golf

Ladies Golf

**Banquets,
Weddings and
Events**

Tournaments

Outings

**Jon Runyan's
Charity Golf
Tourney**

**Swim Team, Pool
Rates & Season
Passes**

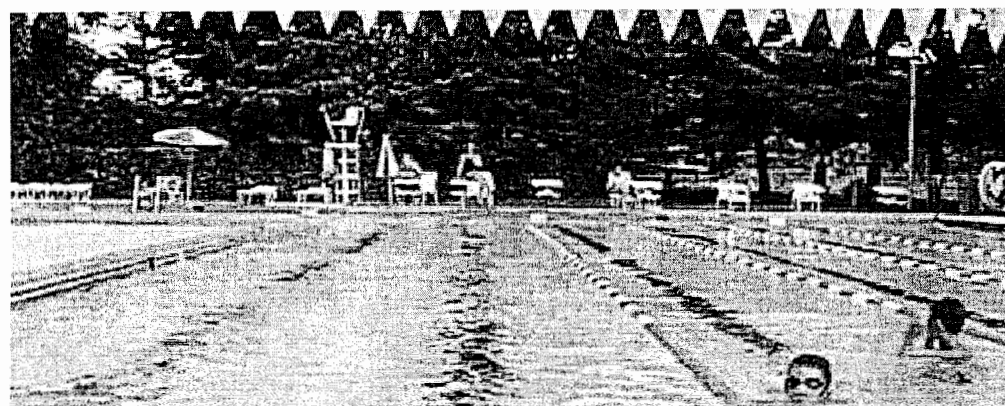
**Golf Rates and
Instruction**

**Seasonal Golf
Passes**

Join Our Team

Directions

Welcome to Ramblewood Country Club Living Life in Peace



Ramblewood Country Club has been called the Delaware Valley's Finest Public Country Club and for good reason.

We offer our members and guests some of the finest recreational facilities in the area and a level of service that will make you feel like you're at a private club. Our 27-hole Championship golf course (golfers can pay by the day or enjoy great savings with a membership), 4 sparkling swimming pools (the pools are members only), and expansive dining facilities make Ramblewood your best choice for family fun year round.

Memberships are available for both the golf and swimming facilities, request more information today about how you can join us at Ramblewood Country Club.

FREE MEMBER FOR A MONTH A drawing for our eClub members. If you are not an eClub member click on the above Free Round of Golf button to become eligible for our monthly drawing. Two names will be picked on the last Wednesday of each month for the next month's Member For A Month.

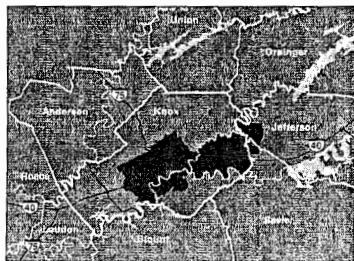
**Receive a
FREE
Round of Golf
Click Here!**

**Greenies Café for
Home Cookin**

Water Division

Years ended June 30	2007	2006	2005	2004	2003
Operating revenues (000's)					
Sales to general customers	\$ 25,597	\$ 25,090	\$ 24,095	\$ 24,574	\$ 24,880
Private fire protection	833	777	753	745	736
Public fire protection	2,410	2,396	2,227	2,217	2,103
Other sales to public authorities	329	254	250	241	124
Other	525	627	748	329	313
Total	\$ 30,794	\$ 29,924	\$ 28,073	\$ 28,297	\$ 28,356
Operating expenses (000's)					
Treatment	\$ 2,999	\$ 2,762	\$ 2,955	\$ 2,534	\$ 2,586
Distribution	10,883	9,648	9,075	8,116	7,584
Other operating expenses	7,484	6,734	6,413	6,108	6,059
Total operating expenses	\$ 21,366	\$ 19,144	\$ 18,443	\$ 16,758	\$ 16,229
Taxes and tax equivalents	2,041	2,592	2,513	2,094	2,015
Provision for depreciation and amortization	3,006	3,277	4,402	4,419	3,424
Total	\$ 26,413	\$ 24,973	\$ 25,358	\$ 23,271	\$ 21,668
Water usage (000s gallons)					
General	8,695,743	8,664,042	8,586,370	8,778,521	8,956,347
Other	254,719	245,147	223,540	225,883	193,250
Total	8,950,462	8,909,189	8,810,010	9,004,404	9,149,597
Number of customers					
Residential	87,490	86,376	85,542	85,046	83,088
Commercial	7,903	7,699	7,599	7,544	7,510
Industrial	349	360	367	388	400
General customers	75,740	74,434	73,508	72,978	71,805
Private fire protection	1,089	1,039	1,023	1,013	966
Public fire protection	2	2	2	2	2
Other	5	6	2	1	3
Total	76,846	75,481	74,538	73,983	72,868

Water Service Area



Number of Customers	76,846
Service Area	178 square miles
Treatment Plants	1
Storage Pumps/Reservoirs	24
Storage Facilities	30
Service Mains	1,428 miles
Water Capacity	61.2 mgd
Reservoir Capacity	12.8 billion gallons
Treated Water	12.8 billion gallons
Average Flow	35.0 Mgd

KUB's Typical Residential Water Customer	
Annual Usage (Gallons)	53,850
Monthly Bill	\$15.13
Cost per Gallon	\$0.00028
Typical Daily Cost for Water Usage (residential)	\$0.50

A residential customer uses up to 1,500 gallons of water a month for a household of 4-5 people.

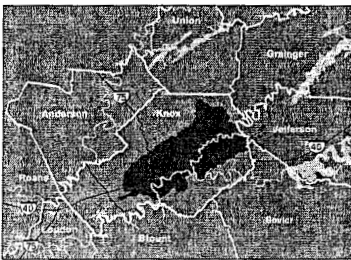
Wastewater Division

Years ended June 30	2007	2006	2005	2004	2003
Operating revenues (000's)					
Service charge	\$ 49,434	\$ 39,761	\$ 29,529	\$ 26,620	\$ 26,771
Utility district	710	491	486	419	394
Industrial surcharge	670	448	368	275	622
Improvement charge	368	406	275	302	461
Other	951	1,139	1,294	235	586
Total	\$ 52,200	\$ 41,201	\$ 31,952	\$ 28,121	\$ 28,834
Operating expenses (000's)					
Collection system	\$ 7,188	\$ 5,876	\$ 6,113	\$ 4,504	\$ 3,058
Treatment	8,792	8,105	8,001	7,158	6,893
Other operating expenses	7,033	6,879	7,119	6,892	6,230
Total operating expenses	\$ 22,983	\$ 20,660	\$ 21,033	\$ 18,554	\$ 16,181
Taxes and tax equivalents	2,931	2,810	2,675	2,287	2,283
Provision for depreciation and amortization	8,418	8,285	5,468	5,244	4,136
Total	\$ 34,332	\$ 29,755	\$ 29,176	\$ 26,085	\$ 22,410
Treatment					
Total annual flow (Mg, ft)	13,928	14,272	16,592	17,538	17,538
Average daily flow (Mg)	38.16	39.10	46.09	48.50	48.05
Maximum daily flow (Mg, ft)	170.20	106.95	139.86	125.08	125.42
Maximum average nitro	3.15	2.74	3.03	2.94	2.58
Cost per Mg	\$ 640.10	\$ 579.41	\$ 523.17	\$ 426.50	\$ 381.65
Number of customers					
Residential	60,208	58,782	57,778	57,168	55,947
Commercial	6,906	6,777	6,708	6,700	6,689
Industrial	283	293	297	316	336
Commercial Waste Disposal contracts	26	29	24	22	17
Total	67,423	65,881	64,807	64,206	62,989
Improvement charges	3,642	4,262	5,544	5,898	7,419
Industrial surcharge	24	22	22	29	29

Number of Customers	67,423
Service Area	248 square miles
Treatment Plant	4
Lift Stations	61
Service Mains	1,293 miles
Water Capacity	66 mgd
Treated Water	13.5 billion gallons
Average Flow	38.2 Mgd

KUB's Typical Residential Wastewater Customer	
Annual Flow (Gallons)	53,850
Monthly Bill	\$41.96
Typical Daily Cost for Wastewater Usage	\$1.38

Wastewater Service Area





- Home
- About Us
- Open An Account
- Online Reservation
- Get A Limo Quote
- Limousine Services
 - Airport Services
 - Corporate Events
 - Weddings Package
 - Balls & Proms Limo
 - Special Events Limo
- Chauffer Driven Luxury Cars
- Our Limo Fleet
- Contact Us

Home

Welcome Olympic Limousine, the safest and most dependable NJ limousine Service Company, services Jersey city, Bayonne, Hoboken, Weehawken, Newark, Union City, New Jersey and New York City with tri-state area coverage.

We have a number of attractive limousine fleet to suit your every limousine need. We are confident that when you step inside one of our vehicles it will be one for the most luxurious limousine rides ever.

Whatever the occasion
..Let Olympic Limousine take you to that very special occasion in Style.

Olympic Limousine Services

NJ-NY Airport Limousine Service
Newark Airport Limousine | JFK Airport Limousine | Newark International Airport Limousine | LGA Airport Limousine

Point to Point Limousine Service
From and to the following cities in New Jersey, Jersey City | Hoboken | Bayonne | Weehawken | West New York | Union City | Morrison Town | Newark | Paterson | Elizabeth

Corporate Transportation Accounts and Events.
Olympic Limousine, offers Corporate and Personal transportation Account.

Weddings Packages
As a very special day, we offered very special packages and limousine stretch, let Olympic limousine take you to the best day of your life in the most luxuries limo stretch.

Login To

Username:
Password:
[Forgot your](#)
[Having diffic](#)

Instant R

Online R

Pick-Up Date*
Jul 1
Pick-Up Time*
HH : MM
Trip Length* (Transfer
Preferred Vehi
Number of Pa:
1
First Name*
Mobile Phone*
Email Address

Start F



Book a Tee Time

Shop Online

**CLICK HERE FOR
ON-LINE SPECIALS**



Home

Course Details

Junior Golf

Ladies Golf

**Banquets,
Weddings and
Events**

Tournaments

Outings

**Jon Runyan's
Charity Golf
Tourney**

**Swim Team, Pool
Rates & Season
Passes**

**Golf Rates and
Instruction**

**Seasonal Golf
Passes**

Join Our Team

Directions

Welcome to Ramblewood Country Club Living Life in Peace



Ramblewood Country Club has been called the Delaware Valley's Finest Public Country Club and for good reason.

We offer our members and guests some of the finest recreational facilities in the area and a level of service that will make you feel like you're at a private club. Our 27-hole Championship golf course (golfers can pay by the day or enjoy great savings with a membership), 4 sparkling swimming pools (the pools are members only), and expansive dining facilities make Ramblewood your best choice for family fun year round.

Memberships are available for both the golf and swimming facilities, request more information today about how you can join us at Ramblewood Country Club.

FREE MEMBER FOR A MONTH A drawing for our eClub members. If you are not an eClub member click on the above Free Round of Golf button to become eligible for our monthly drawing. Two names will be picked on the last Wednesday of each month for the next month's Member For A Month.

**Receive a
FREE
Round of Golf
Click Here!**

**Greenies Café for
Home Cookin**

Exquisite Dining In A Timeless Atmosphere

Alfano's Est. 2003 at The Quail

- HOME
- FINE DINING
- CASUAL DINING
- MENUS
- LINKS
- DIRECTIONS
- CUSTOM CATERING
- WEDDINGS
- WINE DINNERS
- CHEF'S TABLE
- CONTACT

Elysian Fields Lamb

ONLINE RESERVATIONS NOW AVAILABLE

Search For Available Tables at Alfano's at the Quail

Party Size: 2

Date: 07/28/2008
mm/dd/yyyy

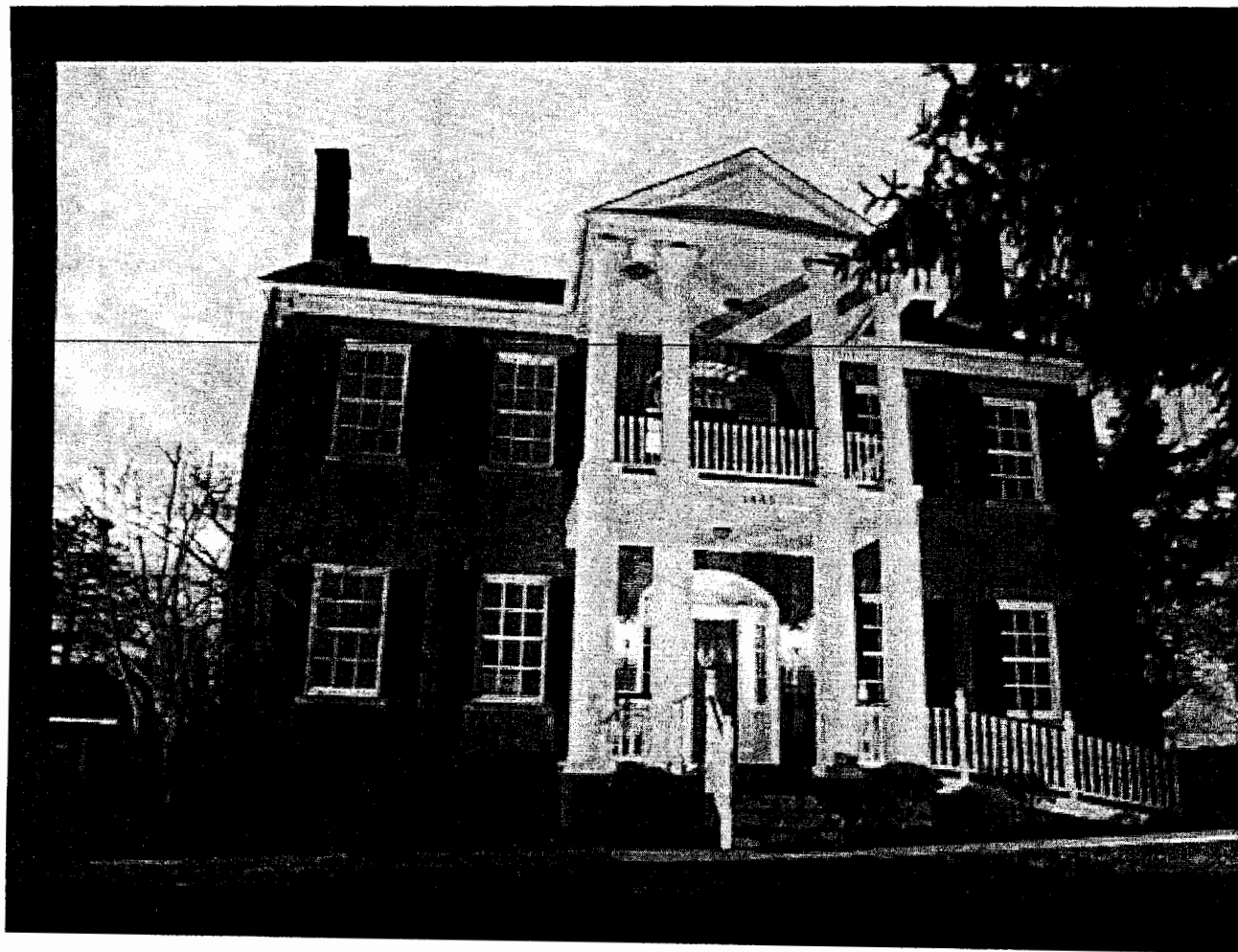
Time: 7:00 PM

Alfano's at the Quail Reservations

POWERED BY
OpenTable.com

Find a Table

MAKE RESERVATIONS 24/7! INSTANT EMAIL CONFIRMATION!



SID



Home United States Pennsylvania (PA) Pittsburgh Restaurants

Le Mont

Free Pittsburgh Guide

Get your quick guide to the top hotels, restaurants and things to do.



TripAdvisor Traveler Rating:

?

A summary score based on quality, quantity and age of traveler ratings.



31 ratings

31 ratings



8



11



7



4



1

TripAdvisor Popularity Index:

?

Measures overall traveler satisfaction based on ratings, reviews and other sources.

#72 of 1,052 restaurants in Pittsburgh

Read 11 reviews for this restaurant

Cuisines: American, Seafood, Steakhouse, Continental

Price range*: \$41-\$80

Recommended For: Romantic, Business

Address: 1114 Grandview Ave, Pittsburgh, PA 15211-1399

Phone: (412) 431-3100

Traveler Description:

Familiar with Le Mont? Write your own description and share what you know with other travelers.

TripAdvisor Traveler Reviews



La Quinta
RESORT & CLUB

The Waldorf-Astoria Collection
LA QUINTA, CALIFORNIA

ABOUT LA QUINTA
ACCOMMODATIONS
VACATION HOME RENTALS
SPA LA QUINTA

GOLF
TENNIS
ACTIVITIES & RECREATION
RESORT DINING
MEETINGS & INCENTIVES
WEDDINGS & CELEBRATIONS
MEMBERSHIP
RESORT SHOPS
SHOP ONLINE
GIFT CERTIFICATES

RESERVATIONS - PACKAGES - TEE TIMES - GALLERY - PRESS - DISCOVER CLUB - CONTACT



La Quinta
RESORT & CLUB
THE WALDORF-ASTORIA COLLECTION

La Quinta Resort & Club - 1.800.598.3828

RESERVATIONS

Arrival Date

7/31/2008



Departure Date

8/3/2008



search

BOOK A ROOM



DETAILS

EVENTS & ACTIVITIES



DETAILS

SIGN UP TODAY!



DETAILS

La Quinta Resort & Club is a legendary hideaway and meeting destination, renowned since 1926 for its charm and serenity. La Quinta Resort & Club features 90 holes of some of the country's best golf, including the famous Stadium Golf Course at PGA WEST and the picturesque Mountain Course at La Quinta Resort. World-class Spa La Quinta offers resort guests a variety of unique indoor and outdoor treatments including PGA WEST Golf Massage, open-air Celestial Showers Sacred Stone Massage and more.

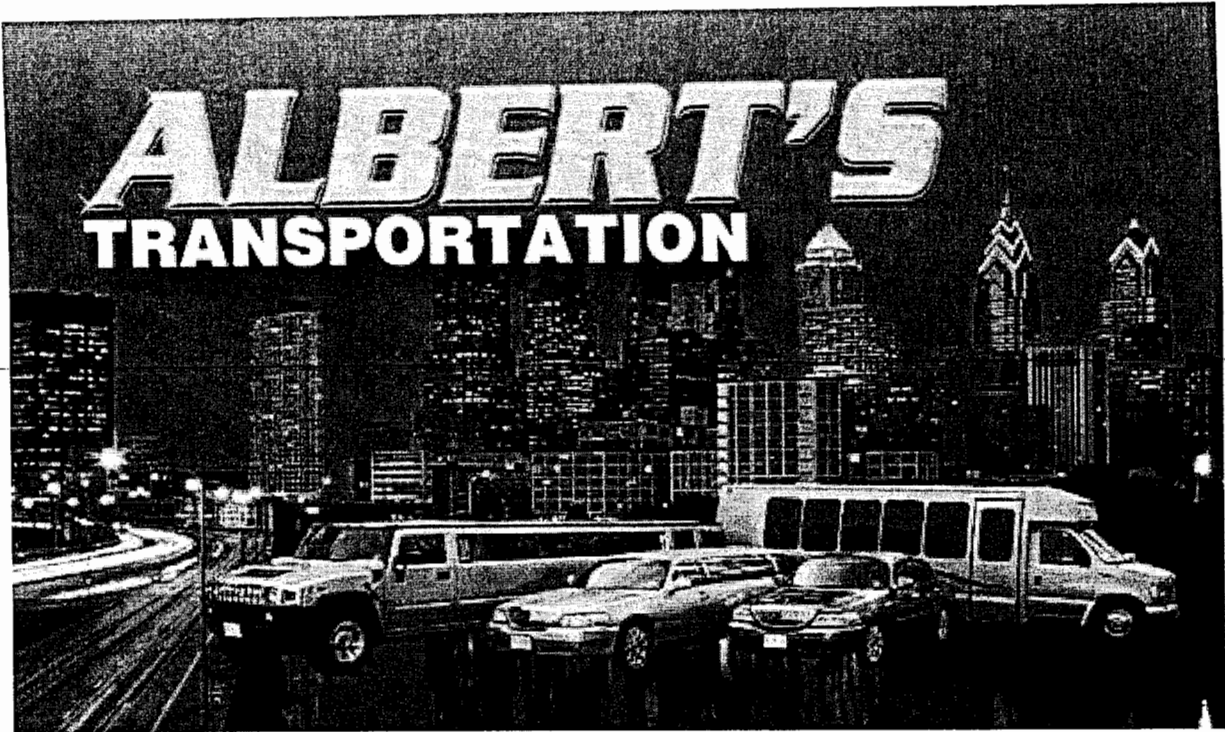
Explore the beauty of La Quinta Resort & Club

MOVIE | VIRTUAL TOURS

The Waldorf-Astoria Collection

Hilton | Conrad Hotels | Doubletree | Embassy Suites Hotels | Hampton Inn | Hampton Inn & Suites
Hilton Garden Inn | Hilton Grand Vacations Club | Homewood Suites by Hilton

Privacy Policy/Your California Privacy Rights | Site Usage Agreement | Employment



Services	Our Cars	Business	Weddings	Reservations	Contact Us
					
24 HOURS A DAY 7 DAYS A WEEK! FULL TIME - FULL SERVICE	OVER EIGHTEEN 2007 & 2008 MODELS ALWAYS READY FOR YOU AND ON TIME!	CORPORATE ACCOUNTS ARE OUR SPECIALTY! CALL FOR YOUR SPECIAL RATES TODAY.	WE ARE WEDDING SPECIALISTS! LET US MAKE YOUR SPECIAL DAY PERFECT WITH LUXURY.	WE ARE WEDDING SPECIALISTS! LET US MAKE YOUR SPECIAL DAY PERFECT WITH LUXURY.	WE ARE AVAILABLE 24 HOURS A DAY - 7 DAYS A WEEK INCLUDING HOLIDAYS.
856.222.9600 FAX: 856.222.9650 1126 RT. 73 SOUTH MT. LAUREL, NJ 08054 24 HOURS A DAY 7 DAYS A WEEK!					
1-800-840-0015					



Copyright © 2005 Albert's Transportation, Inc.

BOSTONCOACH®*A superior ride. Worldwide.*

Quick Links

Login ►

Worldwide Reservations

Services

My Profile

Resources

BostonCoach News

About Us

Customer Care

SPECIAL SERVICES FOR:

Executive Assistants
 Road Show Planners
 Industry Partners
 Travel Managers
 Event Planners
 Travel Agents
 Affiliates

Your Global Travel Partner

Welcome to BostonCoach. Enjoy world-class customer service, and access your ground transportation reservation information anytime, anywhere.

Executive Sedan Reservations

[Instant Rate Look](#)**Pick-up Location** Country/State/Province Select Type**Drop-off Location** Country/State/Province Select Type**Pick-up Date** Month Day 2008 **Pick-up Time** Hour : Minutes [Start Reservation](#)[Get Receipt](#)

Pick-up Instructions

What's New at BostonCoach?

- [Larry Moulter Appointed President & CEO of BostonCoach \(July 18, 2008\)](#)
- [With Impeccable Transportation, BostonCoach Strengthens Simmons College Brand](#)
- [BostonCoach Earns Prestigious Silver LEED Certification for Environmentally Responsible Headquarters \(April 22, 2008\)](#)
- [Transporting Your Guests \(Sports Travel, April 2008\)](#)
- [Build an Eco-Friendly Operation from the Ground Up \(LCT, April 2008\)](#)
- [BostonCoach C.O.O. Mark Munoz Elected to National Limousine Association Board of Directors \(March 20, 2008\)](#)
- [New Headquarters Gives Company a Shot at LEED \(Boston Business Journal, February 8, 2008\)](#)
- [Leaving Behind a Legacy \(Convene, December 2007\)](#)
- [The Ride: Beyond the Luxury Limo \(Crain's New York Business, October 29, 2007\)](#)

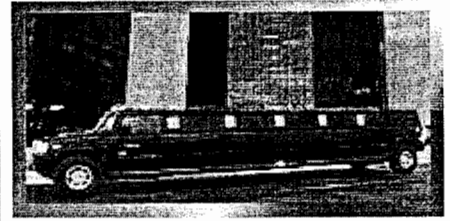
[Ground Transportation Tips \(Association](#)



GOLD SHIELD



Home	Contact Us	Airport Service	Valet Service	Wedding Packages	Newsletter	Links
Bentley	Sedans	Hummer	SUV-Vans	Limos	FAQ's	Client Feedback
Online Reservations						



Thanks to www.topsinlex.com
for the use of this video!

Quality Solutions... Not Just a Ride

Contact Us Today
to Schedule the Ride
of Your Dreams

Gold Shield Limousines provides corporate travel for any and all occasions. We have serviced Lexington & Central Kentucky for over 20 years. We specialize in door-to-door service and feature :

Bentley Limousines Sedans SUV/Vans Hummer

Charley's

STEAK HOUSE

Talk of the Town
RESTAURANT GROUP

Aged Steaks. Market Fresh Fish. Fine Wines.

TALK OF THE TOWN

PRIVATE DINING

CHARLEY'S STEAKHOUSE

~ ORLANDO

~ CELEBRATION

~ INTERNATIONAL DR.

~ TAMPA

MENU

WINE LIST

STEAKS

PRIVATE DINING

SEE THE RESTAURANT

TIPS & RECIPES

DIRECTIONS

FISHBONES

JOHNNIE'S HIDEAWAY

MOONFISH

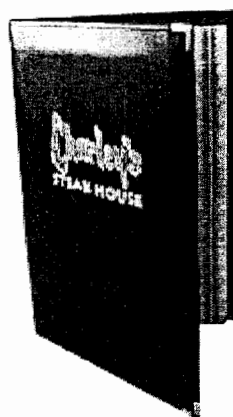
TEXAS CATTLE COMPANY

VITO'S CHOP HOUSE

CATERING

SELECT A RESTAURANT :

Menu



Appetizers

- Escargot Bourguinese
- Jumbo Lump Crab Cocktail
- Seared Rare Tuna Sashimi
- Atlantic Smoked Salmon
- Shrimp Cocktail
- Shrimp Remoulade
- Beef Tenderloin Carpaccio
- Shrimp and Scallop scampi
- Alaskan King Crab
- Hand Breaded Shrimp
- Florida Gator
- Pan-Fried Calamari
- Charley's Duo: Soft Crab and Cake
- The King's Seafood Platter

**THINK GLOBALLY
ACT LOCALLY
DRESS CASUALLY**

 OUR GIFT CARD
CAN MAKE A PERFECT
GIFT FOR FRIENDS
AND FAMILY.


SPECIAL EVENTS

Seasonal Fresh Fish

Oak Grilled - Blackened - Bronzed

PLEASE NOTE:

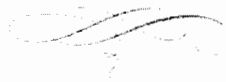
*This menu is provided as a sample only. Information and prices are subject to change without notice.
Please request a current menu from restaurant management to ensure receipt of accurate content.*



In order to fully enjoy the Art of the Dining Experience, we recommend you select your wines as early as possible. Doing so will allow us to properly air, decant or chill them for you.

Our Harry Waugh Dessert Room, located upstairs, offers a breathtaking selection of delectable temptations. These include Armagnacs, brandies, Champagnes; cheese and fruit selections, chocolate creations, classic desserts, coffees, Cognacs, flaming desserts, ice creams, liqueurs, pies, ports, Scotches, and sweet innovations, among many others.

For maximum enjoyment, we recommend that you reserve your table in your own private "wine cask" at the start of your evening. Your waiter will be happy to do this for you.



Please note that a 12% service charge will be added to your check to be given to your waiter in lieu of salary. The option of a gratuity for fine service, of course, is yours. Thank you for choosing us as your dining destination.

Appetizers

FISH AND SHELLFISH

We shop the world for the finest seafood offerings that can be delivered daily to our kitchen door. In every possible instance, the fish, oyster or day boat scallop we serve you was caught or harvested and shipped directly to us, no middle man, nor holding cooler in a warehouse. This allows us to, receive, handle and process your seafood selection ourselves, and to ensure its proper care and quality. For this reason, we have a changing selection of fresh fish and seafood. Please refer to our "Kitchen within a Kitchen" page at the front of the menu for tonight's additional offerings.

Important note: There is risk associated with consuming raw oysters. If you have chronic illness of the liver, stomach or blood, or have immune disorders, you are at greater risk of serious illness from raw oysters and should eat oysters fully cooked. If unsure of your risk, consult a physician.

Oysters on the Half Shell

We offer six different oysters nightly, classic cocktail sauce, horseradish sorbet, green Tabasco granita, truffled mignonette.

Six oysters \$17.95

Twelve oysters \$35.95

Oyster Beignets

Six oysters fried crisp in light-as-air beignet batter.

Parsley bacon salad, tartar sauce Elma.

\$17.95

Shellfish Ceviche

Lightly poached lobster, shrimp, scallops and calamari with a zesty tomato jalapeño dressing, served with popcorn and corn nuts on the side.

\$12.95

Shrimp Cocktail

Fresh poached, chilled shrimp served with a choice of Bern's sauces; classic cocktail, grainy mustard remoulade or fresh ginger sauce.

\$13.95

Maine Lobster Cocktail

Fresh Maine lobster tossed in citrus mayonnaise. Micro greens, avocado, mango, gaufrette potatoes.

\$16.95

Charcoal-Grilled Shrimp

Spicy herb butter.

\$13.95

Florida Jumbo Shrimp Scampi

Tropical fruit macadamia fricassée,

curry mango butter.

\$12.95

Charcoal-Grilled Day Boat Scallops

Spicy herb butter.

\$13.95

Lump Crab Cakes

The finest lump blue crab meat.

Asparagus, golden mushrooms, Choron sauce.

\$16.95

Escargot

Bern's original recipe. Served with house-made garlic toast.

\$10.56

Smoked Fish Tasting

Three lightly smoked "fishes of the day" and our own smoked fish pâté. Melba toast, Key lime mustard sauce and sweet pickled cucumbers.

\$11.95

Bern's Spicy Seared Tuna

Crispy shiitake scallion "firecrackers," green papaya salad, spicy mango coulis.

\$14.95

Tuna Tartare

Sushi quality tuna, hand-diced and dressed with Asian spices, wasabi soy sauce, wasabi tobiko, wonton crisps.

\$10.95

Surf Roll

Maine lobster, sushi rice, avocado, Thai herbs, mango, coconut, macadamias, passionfruit ponzu.

\$13.95

BEEF

Steak Tartare Bern

Garlic rubbed croutes.

Regular \$10.95

Large \$20.50

Golden Steak Tartare

Rye caraway toasts.

Regular \$11.95

Large \$21.50

Black Truffle Tenderloin Steak Tartare

House potato chips.

Regular \$13.95

Large \$24.50

Bern's Special Châteaubriand Carpaccio

When available.

Mushroom marmalade, parsley salad,
shaved Reggiano Parmesan, cracked pepper aioli.
\$14.95

POULTRY

We serve only the finest chicken available, with no exceptions. Our chicken is air-chilled and has been fed an all vegetable diet, free of animal by-products, steroids, or growth hormones.

The air chilling adds no water to the bird, producing a distinct, noticeably better flavor, in addition to a firmer texture.

Charcoal-Grilled Chicken Skewers

Crispy onions, maple Dijon dipping.

\$9.95

Chicken Bern

Marinated, organic breast of chicken
dusted in flour and sesame seeds, lightly sautéed.

Crispy mushrooms Brian, organic mizuna,
soy Armagnac sauce.

Small \$10.95

Large 20.50

Shiitake Chicken Liver Pâté

House port-marinated currants and roasted
macadamia nuts are blended with sautéed
chicken livers and shiitake mushrooms

to create a mildly sweet pâté. Cumberland
and mustard sauces. Garlic rubbed croutes.

\$9.95

FOIE GRAS

Fresh foie gras is prepared two distinctly different ways: seared on our La Plancha or the savory Foie Gras Torchon, a classic French preparation.

Foie Gras à la Plancha

Truffle roasted wild mushrooms,
toasted brioche, Napa Valley Merlot reduction.

\$15.95

Foie Gras Torchon

Toasted brioche, organic arugula,
pickled pineapple, roasted macadamias,
candied ginger.

\$18.95

VEGETABLES

House Potato Chips

Black truffle crème fraîche.

\$8.95

Charcoal-Grilled Organic Vegetables

White truffle cracked pepper aioli.

\$9.95

Goat Cheese Ravioli

Wilted organic arugula, balsamic glazed portobellos,
sundried tomato nectar.

\$12.95

CAVIAR

Each caviar varies in some way: size, color, style, country of origin; and of course, taste. Malossol means little salt. Sturgeon may come from almost anywhere, and the caviar will be much the same. The processing, however, will vary with the producer.

Each serving of one ounce serves one to two persons.

You may order your caviar with six of our own condiments or the traditional accompaniments.

Both are served with fresh toasted brioche.

For an additional \$6.90 you may order six of our Yukon Gold Potato Blinis.

The classic pairings for caviar are fine quality iced Champagnes and icy-cold vodkas.

AMERICA

1. Bern's Smoked Sturgeon Caviar

Hackleback sturgeon caviar is the basis for this historically-inspired treat. Midwestern hard and fruit woods flavor this buttery tasting, silky smooth caviar.

\$65.00

2. California White Sturgeon Caviar

American sturgeon caviar with a taste similar to sevruga. Color ranges from jet black to light gray. The premium American caviar.

\$130.00

3. Truffled Sturgeon Caviar

American sturgeon caviar and black truffles infused with white truffles. Decadent.

\$65.00

4. Fresh Hackleback Sturgeon Caviar

Sevruga-size, pitch black in color. Rich, sweet, and nut-like. Low in salt also.

\$45.00

5. Fresh Chattanooga Beluga Caviar

Perhaps America's finest fresh water sturgeon caviar. The caviar is very carefully selected. Golden gray eggs with sweet, nut-like flavor.

\$55.00

6. Fresh Spoonbill Sturgeon Caviar

The spoonbill (or paddlefish) looks almost like sevruga, small-grained, light to dark gray in color, and mild in flavor.

\$45.00

7. Fresh Bowfin Sturgeon Caviar

From an ancient fish even older than, but related to the sturgeon. Sevruga in size and brown to gray-black in color. Slightly saltier.

\$28.00

8. Truffled Tiger Eye Caviar

Golden whitefish roe cured with all natural black truffles.

\$25.00

9. Smoked Chicago Golden

Golden whitefish roe, smoked to capture the rich aromas from a blend of midwestern fruit and hardwoods.

\$25.00

10. Caviar Mango

Fresh Florida mango is blended with crisp whitefish roe to create a sublime tropical caviar.

\$25.00

11. Fresh Golden Whitefish Caviar

Small to medium in size, with a nice crunchy texture. Beautiful golden color with a mild salty flavor. One of the tastiest affordable caviars.

\$28.00

12. Smoked Salmon Berries Caviar

Salmon roe cold-smoked with apple wood, hickory, and maple. Buttery with a delicious smoky finish.

\$25.00

13. Fresh Orange Great Lakes

Salmon Caviar

Large soft-skinned beautiful berries. Hand processed by C. Collins from coho and chinook salmon, and not salty.

\$25.00

JAPAN

14. Caribbean Tobiko Caviar

Flying fish roe, colored and flavored with Caribbean scotch bonnet peppers. Incendiary.

\$25.00

15. Wasabi Tobiko Caviar

Flying fish roe, colored and flavored with Japanese horseradish, an intense tasting neon green caviar.

\$20.00

16. Black Tobiko Caviar

Flying fish roe infused with sugar, kelp, and a drop of squid ink.

\$20.00

IRAN

17. Iranian Osetra Caviar

Highly prized golden Iranian osetra.
Light brown with a golden sheen. Medium
grains, with a nutty, sometimes fruity flavor.
\$220.00

18. Iranian Sevruga Caviar

Iranian sevruga is noted for its most
intense taste. Small sized steel gray grains. Highly
concentrated flavor.
\$170.00

RUSSIA

**19. Fresh Russian Imperial
Malossol Caviar, Fancy**

A wonderfully dark osetra, prized for its color,
it is often mistaken for beluga. Nutty flavor.
\$190.00

20. Fresh Osetra

Malossol Caviar, Fancy

Smaller grains, golden to darker brown
or gray in color. Nutty flavor.
\$140.00

21. Fresh Sevruga

Malossol Caviar, Fancy

Similar to beluga in taste, but with a more
pronounced and tangy sweet flavor. Smallest of
Caspian Sea grains; dark gray in color. Pretty.
\$120.00

Soups and Salads

SOUPS

Bern's Steak House
French Onion Soup Au Gratin
 Garlic and spelt toasts.

\$6.95

Vichyssoise
 Black truffle crème fraîche, Osetra caviar,
 white truffle oil, shaved fried potato.
 \$9.50

Maine Lobster Bisque
 Golden mushrooms, roast corn,
 smoked bacon, chervil oil.

\$10.50

Tasting of our Three Soups
 Served in concert, individually.
 \$9.50

SALADS

Steak House Salad
 With our own Blue Cheese, Buttermilk Ranch,
 Cabernet Sauvignon Vinaigrette,
 Citrus Vinaigrette, Cleopatra (Caesar),
 Creamy White Balsamic Italian,
 French, Macadamia Vanilla Bean Vinaigrette,
 Maple Dijon or Thousand Island.
 \$6.95

Caesar Salad
 Expertly prepared tableside,
 please allow 10 minutes.
 \$9.95

Roasted Beet Salad
 Goat cheese, herb salad,
 Dijon black truffle vinaigrette.
 \$9.95

Balsamic-Glazed Tomato Salad
 Chef's choice, vine-ripened tomatoes
 glazed with 12 year-old balsamic vinegar
 and hydroponically-grown opal basil.
 \$8.95
 With buffalo mozzarella, gorgonzola,
 or goat cheese.
 \$9.95

Steak House
Chopped Cobb Salad
 Organic greens, grilled asparagus,
 charred red onion, avocado, tomatoes,
 mushrooms, chopped eggs, smoked bacon,
 blue cheese, crispy onion rings,
 Cabernet Sauvignon vinaigrette.
 Plain \$10.95
 Charcoal Grilled Tenderloin Tips \$17.95
 Charcoal Grilled Organic Chicken Breast \$14.95
 Charcoal Grilled Jumbo Shrimp \$16.95

Vegetarian Salad
 Our house greens mixture of romaine,
 iceberg, and mesclun with fresh,
 crisp vegetables of the season.
 \$8.95

Tropical Fruit Salad
 Organic watercress, tropical fruits,
 macadamia vanilla bean vinaigrette.
 \$8.95

Caprese Salad
 Tomatoes, Buffalo mozzarella, pesto purée,
 candied citrus zest, crispy basil and toasted garlic.
 \$9.95

Entrées

ALL ENTREES INCLUDE

Bern's Steak House
French Onion Soup Au Gratin
 Garlic and spelt toasts.

Steak House Baked Potato
 Sweet butter, sour cream,
 crumbled bacon, chives.

Steak House Salad
 With our own Blue Cheese, Buttermilk Ranch,
 Cabernet Sauvignon Vinaigrette,
 Citrus Vinaigrette, Cleopatra (Caesar),
 Creamy White Balsamic Italian,
 French, Macadamia Vanilla Bean Vinaigrette,
 Maple Dijon, or Thousand Island.

Steak House Onion Rings
 Crisply fried.

Bern's Farm Vegetable Tasting
 Entirely organic.

A LA CARTE VEGETABLES

All of our vegetables are fresh and many are grown organically at our farm. Canned or frozen vegetables are never used. We use certified organic vegetables whenever possible. All of our lettuces, herbs and tomatoes are certified organic. Sometimes our vegetables are harvested in small quantities depending on the season, and are only served with our vegetarian dinners or by request. Every day we prepare two vegetables that accompany your entrée at no extra charge. We refer to them as Bern's Farm Vegetable Tasting.

POTATOES
Steak House Baked Potato
 \$3.95

Roasted Fingerling Potatoes
 Black truffle crème fraîche.
 \$7.95

Hawaiian Red Salt Baked
Okinawan Sweet Potato
 Candied ginger macadamia butter.
 \$8.95 (when available)

Pommes Frites
 \$6.90

Crisp Hash Browns
 \$7.95

Garlic Chive Mashed Potatoes
 \$4.95

PASTAS AND GRAINS
Wild Rice Pilaf
 \$4.95

Wild Mushroom Risotto
 \$18.95

White Truffle Macaroni & Cheese
 \$16.95

MUSHROOMS
Steak House Mushrooms
 \$6.95

Crispy Mushrooms Brian
 \$7.95

Truffled Wild Mushrooms
 \$9.95

VEGETABLES
Bern's Farm Vegetable Tasting
 Complimentary

Black Truffle Creamed Corn
 \$9.95

Grilled Asparagus Au Poivre
 \$7.95

Steak House Creamed Spinach
 Leeks, Parmesan, pancetta, and roasted garlic.
 \$7.95

Steamed Broccoli
 \$7.95

Carrot Frites
 Organic carrots, hand-cut, lightly seasoned,
 and fried.
 \$7.95

Steak House Onion Rings
 Small \$3.95
 Large \$6.95

Our Steaks

FILET MIGNON

Filet Mignon is a boneless cut of beef that is also the most tender cut of steak. Specifically selected for us from heavy U. S. tenderloins. Aging makes this Filet more flavorful and sweeter than the usual Filet.

CHÂTEAUBRIAND

Châteaubriand and Filet are both tender and both come from the tenderloin, the long tender part next to the Strip. The difference is that Filets are generally cut smaller and broiled with the grain running up and down; heating through easier and broiling faster.

The Châteaubriand is a larger cut of tenderloin and is broiled laying down with the grain running horizontally against the heat. It is more difficult for the heat to penetrate and it results in a better crust with a nice pink or red warm center. Chateaubriand takes longer than other steaks of equal thickness to broil but achieves greater charcoal flavor.

Your waiter will carve your steak our way, in two.

SPECIAL CHÂTEAUBRIAND

Loin-aged, cut and trimmed to order. Five to 14 oz., but please allow a 1-2 oz. variable.

STRIP SIRLOIN

Strip Sirloin or New York Strip, is very popular because of its flavor. If you like rare to medium-rare steaks, we highly recommend that your party order a Strip for two or three or more. You'll get far more flavor from the slower, longer exposure to the coals.

We remove the regular "tail" of flank, and replace it with a lean slice of tenderloin. This gives you two "pieces" but it is far better eating. If, instead of our boneless Strip, you'd prefer your Strip with the bone left in, order your steak BONE-IN (Kansas City Strip). Broiling with the bone retains more

juice. Except with our beef, after the meat is aged and trimmed, there isn't much "bone" left. Same prices.

The Porterhouse end of all Strips contains the beginning of the Sirloin steak, and this is connected by a seam. We try to remove this seam when we serve medium and medium-well strips – again, to give you better eating.

DELMONICO

Delmonico is the eye of the rib (called "Rib-Eye" in meat circles). It is known, generally, for its richness; because of the greater quantity of fine fat grains – especially in the outer part of the eye and especially when cut nearer to the chuck end. Some people mistake this outer section for "tail" or flank, but it is absolutely the sweetest and juiciest of beef eating (in our opinion) in the world.

"Prime Rib," refers to beef which is roasted as a whole and then sliced – unlike steak, which is trimmed of fat first, and then broiled. Prime Rib may be any grade of beef.

PORTERHOUSE

Porterhouse is sort of "two steaks in one": an aged-on-the-loin Filet (better because of longer dry aging) and a Strip. The Porterhouse is the most aged steak we have and should be ordered only if you like well aged steak. Remember also, that this popular steak may have one or two tougher bites because the true sirloin begins here and is connected with a seam that we do our best to remove.

T-BONE

T-Bone is the same as Porterhouse, except with a smaller filet. This is the only steak not practical to serve fresh because it's in the center of the loin and would necessitate cutting a fresh loin in two. It is generally not quite as aged as the Porterhouse.

FINAL TOUCHES

Enhance your steak with one of these delicious accompaniments.

Blue Cheese \$3.95 Caramelized Red Onion \$2.95 Roasted Garlic \$2.95
Oscar - asparagus, lump crab, hollandaise \$6.95 Crab Cake \$6.95

WHAT KIND OF SAUCE WOULD YOU LIKE?

Béarnaise, Choron, Creamy Horseradish, Gorgonzola Fondue, Green Peppercorn,
Pinot Noir Reduction, Shiitake Sauce Diane, Soy Armagnac \$3.95 each

For more information about our sauces, please refer to Notes About Our Sauces on page 11.

Steak	Thickness <i>Med. - Med. Well</i>	Thickness <i>Rare - Med. Rare</i>	Weight	Serves	Price
FILET MIGNON	1" 1 1/8" 1 1/2" 2"	1" 1 1/4" 1 3/4" 2"	6 oz 8 oz 10 oz 12 oz	1 1 1 1	\$ 29.10 33.50 37.90 42.30
CHÂTEAUBRIAND	1 to 1 1/2" 1 to 1 3/4"	2" 2"	7 oz 9 oz	1 1	\$ 31.30 35.70
SPECIAL CHÂTEAUBRIAND	1 1/4 to 2" 1 1/4 to 2"	2" 2 1/4"	11 oz 13 oz	1 1	40.10 44.50
<i>Loin-aged, cut and trimmed to order. Five to 14 oz., but please allow a 1-2 oz. leeway. \$.75 per ounce additional.</i>	1 1/2 to 2" 1 1/2 to 2 1/4" 1 1/2 to 2 1/2" 1 1/2 to 2 1/2" 1 1/2 to 2 3/4" 1 3/4 to 3" 2 to 3" 2 to 3" 2 to 3 1/4" 2 to 3 1/4" 2 to 3 1/4"	2 1/4" 2 1/2" 2 3/4" 2 1/2 to 3" 3" 2 1/2 to 3" 2 1/2 to 3" 2 1/2 to 3 1/4" 2 1/2 to 3 1/4" 2 1/2 to 3 1/4" 2 1/2 to 3 1/4"	14 oz 17 oz 20 oz 22 oz 25 oz 28 oz 30 oz 34 oz 38 oz 42 oz 48 oz	2 2 2 3 3 3 4 4 4 5 6	62.50 69.10 75.70 96.00 102.60 109.20 129.40 138.20 147.00 171.70 200.70
STRIP SIRLOIN	3/4" 1" 1 1/8" 1 1/4" 1 1/4" 1 1/2" 2" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3"	3/4" 1" 1 1/4" 1 1/4" 1 1/2" 1 3/4" 2" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3" 1 1/2 to 3"	8 oz 10 oz 12 oz 14 oz 16 oz 19 oz 22 oz 24 oz 27 oz 30 oz 32 oz 36 oz 40 oz 45 oz 48 oz 54 oz 60 oz	1 1 1 1 2 2 2 3 3 3 4 4 4 5 6 6 6	\$ 34.32 38.92 43.52 48.12 68.52 75.42 82.32 102.82 109.72 116.62 137.02 146.22 155.42 182.82 205.52 219.32 233.12
DELMONICO	3/4" 7/8" 1" 1 1/8" 1 1/4" 1 1/2"	3/4" 7/8" 1 1/8" 1 1/4" 1 3/4" 2"	8 oz 10 oz 12 oz 14 oz 16 oz 18 oz	1 1 1 1 2 2	\$ 34.74 39.44 44.14 48.84 69.34 74.04
PORTERHOUSE	1" 1 1/8" 1 1/4" 1 1/2" 2"	1" 1 1/8" 1 1/4" 1 1/2" 2"	17 oz 21 oz 25 oz 30 oz 36 oz	1 1 1 2 2	\$ 52.48 61.08 69.68 96.28 109.18
T-BONE	1" 1 1/4" 1 1/4" 2"	1" 1 1/4" 1 3/4" 2"	15 oz 19 oz 28 oz 32 oz	1 1 2 2	\$ 48.16 56.76 91.96 100.56

How would you like your steak broiled? Please refer to the chart on the following page.

HOW DO YOU LIKE YOUR STEAK BROILED?

Aged meat is already tender (and never bloody). You can order it cooked less done than you would fresh meat. In fact, fresh meat is cooked well done to tenderize it, and aged meat becomes tougher the longer you cook it.

You can also combine two adjacent degrees of doneness in one thicker steak (please refer to our chart below).

If you want your steak broiled medium rare and your guest prefers medium, for example, we generally can accomplish this. If you prefer rare, and your guest likes well done, we will gladly cut your steak and cook your halves separately, even "butterflying" the well done to avoid excess shrinkage. Just tell your waiter.

Or... you may also order your steak broiled between two degrees of doneness. Perhaps between medium rare and medium, for example.

Or, even on "the rare side of medium rare." Exactly the way you'd like it broiled.

Prefer fresh steak? Other than T-bone, we can cut your steak any way you wish unaged, since we cut your steak after you order anyway. No extra charge. No problem, just tell your waiter.

Our beef is the most beautiful and most costly in America. However, in order to be beautiful, it must be well-fed. And this is the problem: what to do with the excess fat. We remove it (and the gristle, too, where possible) even though it gives you a less-perfect looking steak. It's our weight loss. But we want you to know that we cut our steaks to give you good eating, not necessarily good looking.

(If you tour our kitchen, you'll see why we buy 3-4 pounds of beef in order to give you one pound of steak.)

	THIN 1" thick or less	MEDIUM THICK 1 1/4" thick to 1 3/4" thick	THICK 2" to 2 3/4" thick	VERY THICK over 3" thick
VERY RARE <i>No Crust</i>	No Crust. Cold And Raw. 4-8 Seconds	No Crust. Cold And Raw. 16-34 Seconds	No Crust. Cold And Raw. 2-5 Minutes	No Crust. Cold And Raw. 3-10 Minutes
VERY RARE <i>With Crust</i>	Crust Not Possible For Cold, Thin Steak. 14-21 Seconds	Thin Crust. Cold Center. 25-56 Seconds	Thin Crust. Cold Raw Center. 2-3 Minutes	Thin Crust. Cold Raw Center. 3-5 Minutes
RARE <i>Cold Center</i>	Only The Tiniest Crust Is Possible. Cold. 19-36 Seconds	Small Crust. Rare Cold Center. 2-3 Minutes	Medium Crust. Cold Center. 4-8 Minutes	Fairly Thick Crust. Cold Center. 8-10 Minutes
RARE <i>Warm Center</i>	Thin Crust. Warm Red Center. 50-90 Seconds	Small Crust. Warm Red Center. 5-8 Minutes	Good Crust. Large Warm Red Center. 10-25 Minutes	Heavy Crust. Large Warm Red Center. 25-35 Minutes
MEDIUM RARE	Small Crust. Warm Red Center. 2-4 Minutes	Nice Crust. Warm Red Center. 8-15 Minutes	Nice Crust. Medium Size Warm Red Center. 18-30 Minutes	Nice Thick Crust. Nice Warm Red Center. 30-43 Minutes
MEDIUM	Nice Crust. Warm Pink Center. 4-8 Minutes	Thick Crust. Hot Pink Center. 15-25 Minutes	Thick Crust. Hot Pink Center. 30-45 Minutes	Very Thick Crust. Almost Cooked Through. Small Pink Center. 45-60 Minutes
MEDIUM WELL	Good Crust. Cooked Through. 10-20 Minutes	Thick Crust. No Color Left. Cooked Through. 25-45 Minutes	Very Thick Crust. No Color Left. Cooked Through. 45-55 Minutes	Very Thick Dark Crust. No Color. A Little Juice Left. 55-70 Minutes
WELL DONE	Sturdy Little Crust. No Color. No Juice. Dried Out. 20-30 Minutes	Thick Crust. No Color. No Juice. Dried Out. 40-55 Minutes	Very Thick Crust. No Color. No Juice. Dried Out. 55-70 Minutes	Very Thick Dark Crust. No Color. No Juice. Dried Out. 70-90 Minutes

HOW THICK WOULD YOU LIKE YOUR STEAK?



NOTES ABOUT OUR STEAKS

All our Strips, Delmonicos, Porterhouses and T-Bones are U.S Prime only, and all our steaks are aged 5-8 weeks. They are trimmed and cut after you order, and broiled over real charcoal.

A thick steak for two is always better than two single steaks - when broiled rare or medium rare. Individual steaks are better for medium well or well done. A thick steak gives you much greater charcoal flavor. And there's nothing quite like a beautiful, dark brown charcoal crust over a juicy red or pink center. Chances are, you will enjoy half of a 16 oz. steak for two much more than you will enjoy an individual 8 oz. steak. Except if you prefer your steak medium well or well done. In that case, order thin steaks. You'll have much less shrinkage.

If you'd like a larger steak broiled medium well or well done, we recommend that you have it "butterflied" or opened up and cut almost in two. You'll get more to eat that way, and it won't be so heavily crusted or as dried out.

Do not over order. Don't order a 16 oz. Strip, for example, in order to get 10 ounces of steak; order 10 ounces. Because we try to trim away what you cannot enjoy, the inedible, fatty tail is replaced with a cut of tenderloin. The fat is reduced to the minimum that will enhance your steak flavor. On Delmonico steaks, the ribeye is opened and the fat and gristle are removed and replaced with Filet where necessary. On T-Bone and Porterhouse steaks, some of the bone is even removed.

Also, even with a fairly small steak, you will generally have more than enough to eat; please don't order too large a steak unless you are exceptionally hungry. If you order a Filet, 8 ounces is more than enough for the average person; 6 ounces may be enough for many.

Why do we "age" steaks? When you consider the cost, the work, and the waste, is it really worthwhile to age beef a long time? Most people and most eating places say beef is aged when it is one or two weeks old.

We have found that extra-extra quality beef continues to improve for five, six, seven, eight weeks. Like great wines that improve for 50 years, great beef gets sweeter, more tender, and acquires a taste that cannot be duplicated, except with proper age.

This is our kind of beef and it's extremely expensive. We pay more in the beginning and we throw away more in the end.

And the meat, in the meantime, demands very special care. Each piece must be stored at exacting temperatures, with controlled humidity, and exceptionally fine circulation. It has already been paid for, and it keeps shrinking all the time.

Why do we "age" steaks so long?

We think it's all worthwhile when one single customer tells us he's eaten "everywhere" and ours is the "best." It's all in the taste.

NOTES ABOUT OUR SAUCES

Our dry-aged steaks are so flavorful they require no sauce. Really. But with the differences that each cut of steak has in flavor and texture, a great sauce will only enhance what is already there, a great steak. And each cut may be enhanced by decidedly different sauces. For example, Filet Mignon and Châteaubriand are both cut from the tenderloin. With little or no fat, the flavor is different from say, a Delmonico steak, that is marbled throughout. Classically, for this reason, Filets and Châteaubriands are often

served with butter-rich Béarnaise sauce. These steaks are revered for their texture more than anything and considering that they are cooked differently, Filet is cooked with the grain and Châteaubriand is cooked against the grain to develop a deeper, more robust flavored crust, you may find your preference in saucing these steaks may be different from each other. To that end, we offer you our sauces for your steak eating pleasure. One sauce is usually enough for two steaks and of course, they are all made from scratch in our kitchen.

Additional Entrées

BEEF

Châteaubriand Tips

The same beef as our Châteaubriand,

charcoal-grilled:

6 oz. \$24.60

8 oz. \$27.80

10 oz. \$31.00

Charcoal-Grilled Chopped Steak

Beef selected for the most flavor is coarse ground

to your order and charcoal-grilled:

Plain 11 oz. \$20.91

Porcini port sauce \$23.91

Gorgonzola fondue \$23.91

Wild, truffled mushrooms \$27.91

LAMB

Papaya mint conserve, Pinot Noir reduction.

Lamb T-Bones

3 chops \$31.95

4 chops \$36.95

Rack of Lamb

4 bones \$41.00

6 bones \$51.00

VEAL

Porcini port sauce.

Strip

11 oz. \$30.90

17 oz. \$41.90

Chop

14 oz. \$39.95

Filet Mignon

6 oz. \$35.60

8 oz. \$38.80

Châteaubriand

8 oz. \$38.80

12 oz. \$54.90

PORK

We brine our pork in house for a tender texture and deeper flavor.

Balsamic onion sauce.

Pork Tenderloin

6 oz. \$27.60

8 oz. \$31.80

Center Cut Pork Chop

12 oz. \$35.90

POULTRY

We serve only the finest chicken available with no exceptions. Our chicken is air-chilled and has been fed an all vegetable diet, free of animal by-products, steroids, or growth hormones. The air chilling adds no water to the bird, producing a distinct, noticeably better flavor, in addition to a firmer texture.

Fresh Charcoal-Grilled Chicken

Boneless, single breast

\$23.95

Boneless, two single breasts

\$32.95

Chicken Bern

Marinated, organic breast of chicken
dusted in flour and sesame seeds, lightly sautéed.
Served with wild rice pilaf, farm mizuna,
crispy mushrooms Brian,
and Soy Armagnac sauce.
\$30.95

Chicken Gert

Pan-roasted organic breast of chicken stuffed
with roasted garlic rosemary butter. Served with
wild mushroom-risotto, broccoli-rabe and
tomato emulsion.
\$27.95

Crisp Roasted Duckling

Semi-boneless, half duck.
Guava orange macadamia sauce and
green peppercorn sauce.
\$35.90

FRESH FISH

Please refer to our "Kitchen within a Kitchen" page at the front of the menu for tonight's entire offerings. We can charcoal-grill your selection for a robust flavor, sauté it for a delicate texture, or we can prepare it on our "la plancha" for a golden crust and a pure seared flavor.

What Kind of Sauce Would You Like With Your Fish?

When choosing a sauce for your selection, you may want to consider how you are having it prepared and what that preparation brings to the dish. You also may want to consider the type of fish, oil content, or tightness of the grain in making your decision. For example, to truly enjoy the deep red color of salmon and its luscious full flavor, you may want to consider a sauce that will cut through that richness and offer a counterpoint to it, say a vinaigrette, because the acidity of the vinaigrette will do just the job required. To that end, we offer you our sauces that best complement seafood. One sauce is usually enough for two entrées and of course, they are all made from scratch in our kitchen.

*Béarnaise, Choron, Hollandaise, Lobster Vinaigrette,
Shiitake Sauce Diane, Spicy Herb Butter, Tartar Sauce Elma,
White Truffle Beurre Blanc*

\$3.95 each

Charcoal-Grilled Salmon

Hash browns, asparagus, lobster vinaigrette.
\$33.95

Yellowtail Snapper à la Plancha

Potato purée, organic arugula,
golden mushrooms, white truffle beurre blanc.
\$36.95

Swordfish Au Poivre

Fingerling potatoes, asparagus,
wild mushrooms, red wine-braised shallots.
\$37.95

Rare Seared Tuna "Diane"

Au poivre, pommes frites, French beans,
shiitake sauce Diane.
\$38.95

Fresh Catch En Papillote

Lobster, shrimp, lump crab, day boat scallops,
celery root, apples, curry, kaffir lime.
\$38.95

LIVE LOBSTER

Two to three pounds (up to 5 pounds with a 48-hour notice). Lobsters are partially steamed, then lightly roasted with sweet butter, in or out of the shell - your preference.

Select your own if you like.

Market

SEAFOOD

Charcoal-Grilled Shrimp

Our shrimp is the freshest we can get.

Spicy herb butter.

\$33.95

Florida Shrimp Scampi

Tropical fruit macadamia fricassée,

curry mango butter.

\$31.95

Lump Crab Stuffed Jumbo Shrimp

Garlic fried potatoes, baby spinach,

tomato emulsion.

\$36.95

Charcoal-Grilled Day Boat Scallops

Spicy herb butter.

\$29.95

Lump Crab Cakes

The finest lump blue crab meat.

Pommes frites, asparagus, golden mushrooms,

Choron sauce.

\$37.95

VEGETABLES

Charcoal-Grilled or Steamed Vegetables

A myriad selection usually including,
but not limited to, an array of root vegetables,
mushrooms, squashes, eggplant, tomatoes,
onions, and sweet peppers, etc.

Cracked pepper white truffle aioli.

\$23.95

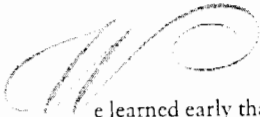
Goat Cheese Ravioli

Wilted organic arugula,
balsamic-glazed portobellos,
sundried tomato nectar.

\$23.95



We do things differently here



e learned early that if you want to be the best at something, you can't worry about the cost or the trouble. We do things differently, and we do them with great pride and passion.

Our waiters train one year with us, working at almost every station in the restaurant, in our workshops, and on the farm. They then train for another 8 to 12 weeks in the dining rooms before they wait on you by themselves. And they continue to wear burgundy ties for perhaps a year before we feel that they are fully knowledgeable to answer all your questions properly.

We devote space equivalent to 100 dining seats just to offer you the widest selection of wines in the world.

We use only freshly-squeezed juices and the highest quality liquors to prepare your cocktail.

We fly in fresh caviar regularly.

Our seafood is flown here daily so that we can offer the freshest product from all over the world.

We buy veal bones to help us make better onion soup, even though we have (and use) hundreds of pounds of our own beef bones.

We sprout organic curly cress seeds in our kitchen, just to add one small flavor ingredient to your salad.

We marinate our olives for at least one month in pure olive oil, herbs and spices, even though you may scarcely notice one on your salad. We grow what we can on our own farm, organically, without pesticides or other toxic materials, and pick your vegetables ripe and fresh as frequently as possible.

We peel your tomato before serving it.

We age your steak as long as we do for the best flavor.

We broil your steak with far-healthier lump hardwood charcoal instead of super-convenient briquettes.

We then cut and trim and weigh your steak only after you have placed your order (with 62 choices to cut, a bit more labor is required than if we just served you several pre-cut steaks).

We make garlic butter for your steak the old-fashioned way, by peeling lots of garlic and blending it with 100% sweet cream butter.

We use hundreds of pounds of 93 score AA unsalted fresh creamery butter weekly in the kitchen.

We prepare all our vegetables either to your order or in very small quantities.

We bake your potato to order (and throw it out if it is baked a shade too long).

We prepare your onion rings so that they are ready when your steak comes off the broiler.

We hand-sort our green coffee beans to eliminate every single defect before we roast them (up to eight different beans separately), and then blend our American and Turkish coffee beans each day in our kitchen.

We use four separate grinders so that each of our distinct coffees and blends are freshly ground only to your order. We also brew your coffee strong and believe that only heavy whipping cream is good enough for it.

We use organically grown flour for our freshly-baked breads.

We make all our own ice creams, sherbets, pies, pastries, hot fudge, whipped cream, breads, crackers, etc. ourselves, so that we might use more exciting ingredients throughout.

We import specialty and hard-to-find products like chocolate, rare liqueurs and flavors from all over the world just to produce a unique dessert. And. And. And.

Perhaps you begin to see, we really do things differently here.

We mean it when we say we want you to have a most memorable evening when you dine with us, tonight and each time you come.

MY FATHER'S PASSION

I like to think that my father's passion or some say, obsession, for quality and freshness was handed down to me. He was painstakingly committed to serving only the very, very best, even if it meant more work and time for preparation, or a higher price paid to begin with the best raw products. I am proud and excited to carry on his passion. My father always believed in evolving, growing, and learning more. He knew that in this business he was a student for life. If the most important factor in a successful restaurant is consistency, then the second is probably the willingness to push yourself to do things better, healthier and tastier.

Oyster lovers will be thrilled to find a variety of this succulent shellfish on the menu as well. Whether it is Snowcreeks, Kumamotos, or Olympias, our oysters are bagged straight from aquaculture oyster beds and flown overnight to our kitchen.

Like my father, I am a great believer in farm-fresh organic produce. That is why nearly every vegetable we serve is certifiably organic, whether it is from our own farm or another established place. From greens to carrots to wild, exotic mushrooms, you can taste the freshness with every bite.

To showcase a product's true flavor, we cook several items on a "La Plancha" or chromium griddle and use all-stainless steel cookware. Stainless steel cookware is non-reactive, allowing us to sear our seafood, foie gras – anything – at a high temperature without fear of the pan imparting any flavor.

With both, all you taste is the authentic flavor of the food. If it sounds like I share my father's obsession for quality, you are right. Because of this, we will continue to ensure that every detail of your dining experience is perfect – from the minute you speak to our Maître d' to the time you put down your napkin.

My father's passion and commitment led him to develop the fine art of steak. Today, as we strive to maintain my father's standards and feel his continued inspiration, we find ourselves developing the fine art of the dining experience, the natural progression of my father's life's work. We hope you know that it is all for you.

Dal Lafi

HOW WE DO THINGS DOWN ON THE FARM

Like everything else at Bern's, our farm is far from an ordinary commercial establishment. It exists solely to grow farm-fresh, pesticide and chemical-free vegetables and salad greens for our restaurant – and for your pure dining pleasure. We've done it this way from the very beginning, because we feel strongly that the best-tasting vegetables are those that are grown naturally, with no poison sprays or harmful chemicals.

Organic? Yes. In the truest sense of the word. We use compost, sea weeds and crushed rocks, mother nature's food, to nurture and

enhance our products. And, in general, bugs and disease stay away.

Depending on the season and the weather, we try to serve what we grow on our farm daily to our customers. (The only exception is our land cress sprouts which are grown in our kitchen). Our goal is to offer you one or two farm-fresh vegetables at no charge. Want seconds or thirds? We consider it a compliment and will be happy to serve you more – again at no charge. Just ask your waiter.

A WINE SELECTION THAT WOULD MAKE BACCHUS PROUD

Bacchus, the Greek god of wine, would gladly pull up stakes and make his home right here in our cellar. And who could blame him? After all, we've accumulated the largest variety of wines ever assembled in the world so that you can indulge in any wine, from practically any part of the world. From simple everyday wines to rare, hard-to-find vintages, we've put together an extraordinary selection at very fair prices.

We want you to feel comfortable choosing and drinking our wines. Should a wine be drunk before it is properly aged? Should it be drunk before it has had time to mature? Can you fully enjoy a young, hard wine that has not had time to properly show its best? If you have questions, please feel free to ask one of our sommeliers.

Maybe you prefer a wine that needs no aging like some whites, most rosés and simple Beaujolais. Or how about a wine that's had time to grow or develop into what it should taste like? We also have nearly 250 wines by the glass (and over 80 in our Harry Waugh Dessert Room upstairs). Why not treat yourself and choose a different glass of wine for each course?

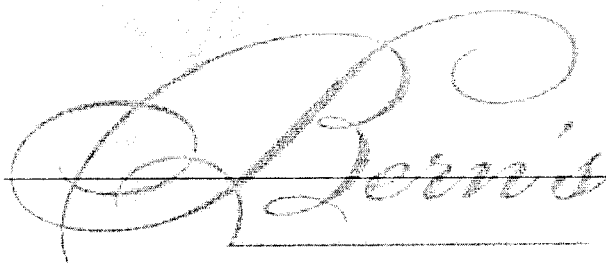
Again, your sommelier will be happy to assist you with your wine selection. He is here every evening to do just that.

With all these choices at hand, it is no wonder people across the globe come here to dine with us.

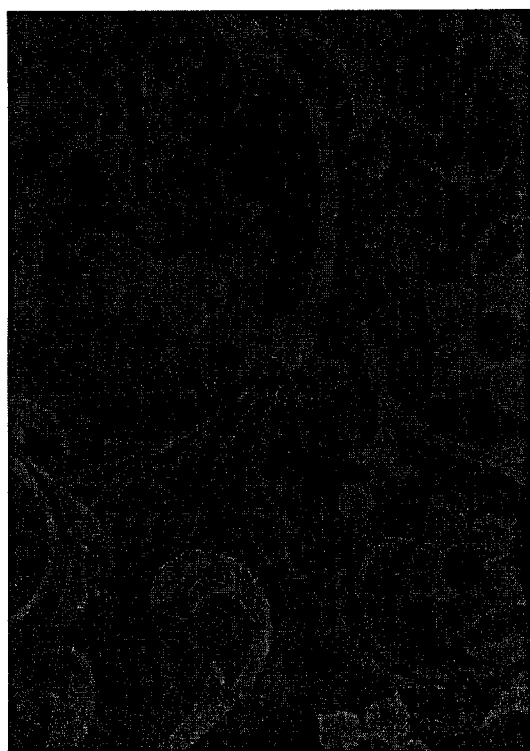
Our cellars are very cool, so when ordering a fine wine, we urge you to tell us as soon as possible so we may bring it to room temperature, open it to air, or decant it. It will also allow us to chill your wine properly, if needed.

Please be assured we are here to help you enjoy the unique dining experience of Bern's Steak House. All you have to do is ask.

Please Note: Our wine cellars are set at the optimum temperature to store wines. At this setting, our wines mature more slowly, resulting in younger releases that may be a bit tannic. If you would like a red wine with your meal, we suggest a wine with some bottle age. Their complexity and smooth tannins are superb matches with our aged steaks.



STEAK HOUSE PRIME INFO | CONTACT | GIFT CERTIFICATES | THE S



RESERVATION REQUESTS

Reservation requests for Bern's Steak House are accepted with a 72 hour advance notice. We do not accept requests more than 3 months in advance. For special requests please call 813-251-2421.

Your reservation request is not considered a confirmation binding until you receive a confirming phone call or email from Bern's Steak House.

Bern's cannot guarantee that your requested time or date is available. Due to time differences an email address is required for reservations outside of the U.S.

Bern's does not accept reservations for the Harry Vaughn Dessert room reserves priority seating for those already dining at Bern's Steak House. If you are not dining in the Harry Vaughn Dessert room, first come, first serve.

To request a reservation online, please fill out the online reservation form by clicking [HERE](#).

ART IN STEAKS | MENU | CULINARY TEAM | WINES & SPIRITS | HARRY VAUGHN DESSERT ROOM

we do things differently here

1208 SOUTH HOWARD AVENUE TAMPA FLORIDA 813.251.2421 HOURS 5PM-10PM Sun-Thurs,



Inverness Hotel and Conference Center in Denver, Colorado

OR RESERVATIONS EO

Inverness Email Club

Join Inverness Email Club to receive special offers, and promotions. Click here to sign up!

ONLINE SPECIALS

ACCOMMODATIONS

GOLF & SPA

WEDDINGS & EVENTS

PLAN YOUR CONFERENCE

DINING

ABOUT US

REQUEST FOR PROPOSAL

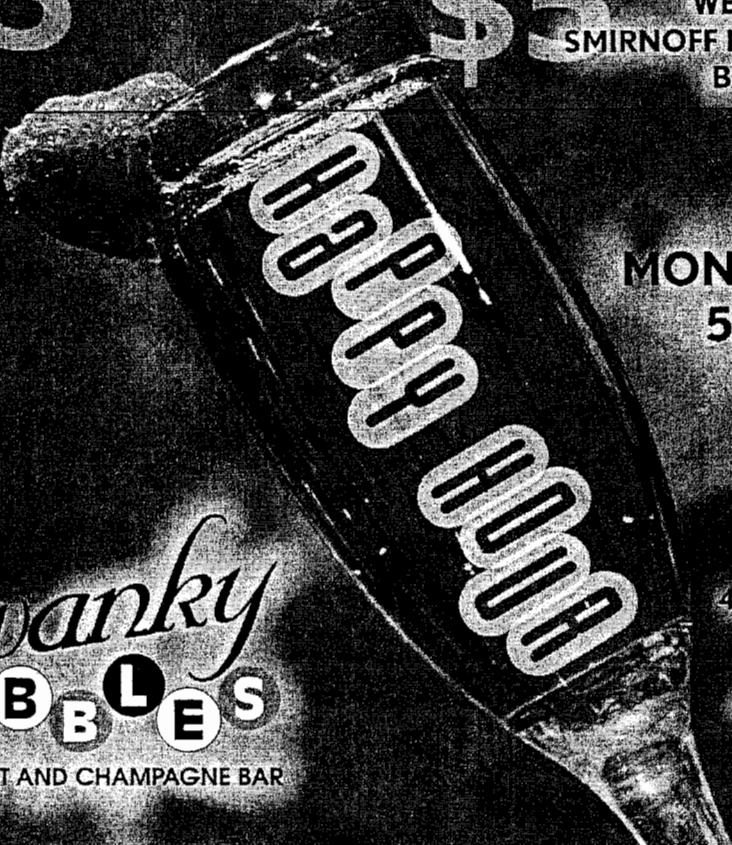
OR CONTACT US EO



200 Inverness Drive West | Englewood, Colorado 80112 | 800 832 9053 phone | 303 799 5874 fax

Copyright © 2008, The Inverness Hotel and Conference Center. All rights reserved. | [Privacy Policy](#) | [Destination Earth](#)
| [Site Map](#) | [Careers](#)





\$3 BEER SPECIALS

**\$5 CHAMPAGNE COCKTAILS
WELL DRINKS
SMIRNOFF DRINKS & MARTINIS
BAR MENU**

**MONDAY-FRIDAY
5PM - 7PM**

Swanky
BUBBLES
RESTAURANT AND CHAMPAGNE BAR

482 EVESHAM ROAD
CHERRY HILL
856-428-4999
swankybubbles.com



Serving Your Formal Needs For Over 25 Years

NEWS AND EVENTS

TUXEDO RENTALS

ITEMS FOR PURCHASE

WEDDINGS

PROMS

COLLEGE EVENTS

UNIFORMS

BLACK TIE EVENTS

CONVENTIONS & GROUPS

OUT OF TOWN GROOMSMEN

SUBMIT MEASUREMENTS

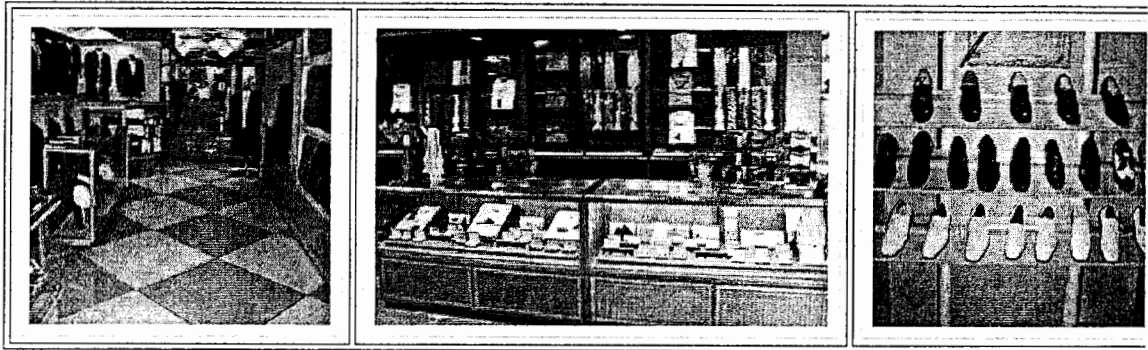
REQUEST A BROCHURE

CONTACT US

HOME

Welcome to Black Tie

With over 25 years experience of professional service to thousands of weddings, proms, black tie events and other occasions, we are the formalwear experts. Our knowledgeable staff will help you select the appropriate tuxedo that suits your wedding or other formal occasion. Our hands-on service is almost legendary in the formal wear industry. Black Tie Formal Attire is recognized as one of the premier tuxedo centers in the country. With a comprehensive collection from the worlds finest tuxedo designers, you can choose from the latest selection of tuxedos, formal shirts, formal shoes, tuxedo vests and much more. Black Tie offers our tuxedo collection for rental or purchase. Every tuxedo is on display in our showroom and available for your personal try-on so you know what you're getting! Come visit our Philadelphia tuxedo superstore!





✱ SPECIALS

- Welcome
- Guest Rooms
- The Catamaran Spa
- Activities
- Meetings & Banquets
- Dining / Entertainment
- Explore Mission Bay
- Explore San Diego

✱ VIEW OUR LIVE CAM!

*Welcome to an experience
that awakens the senses
relaxes the body
and soothes the soul.*

CATAMARAN
RESORT HOTEL
Spa

RESERVATIONS • LIVE HELP • REQUEST INFO • DIRECTIONS • PRESS ROOM • I-POSTCARD

KIDS CLUB

3999 Mission Boulevard, San Diego CA 92109 RESERVATIONS: 800.422.8386 | RECEPTION: 858.488.1081

Copyright© 1997-2008 All Rights Reserved. Evans Hotels Privacy Policy Employment Site Map Site Design

[Home](#) > [Four Seasons Hotel Philadelphia](#)


FOUR SEASONS HOTEL
Philadelphia

Rates and reservations[Find a hotel or resort](#)[Purchase a gift card](#)[Contact us](#)
[+A](#) [-A](#) [Print](#) [Email](#)

 One Logan Square, Philadelphia, Pennsylvania, U.S.A. 19103-6933 Tel. 1 (215) 963-1500 Fax. 1 (215) 963-9506

Welcome to Philadelphia

[Four Seasons Philadelphia](#)
[Photo gallery](#)
[Rates and reservations](#)
[Guest rooms and suites](#)
[Spa](#)
[Dining](#)
[Services and activities](#)
[About this destination](#)
[Hotel fact sheet](#)


Welcome to Four Seasons Hotel Philadelphia. Elegance itself, with contemporary classic furnishings inspired by the handsome Federal period, Four Seasons is the city's first choice for business or pleasure - close to the financial and commercial districts yet surrounded by museums, shopping and history at One Logan Square.

Philadelphia's only hotel with an inner courtyard, the Four Seasons has a country-club-in-the-city ambience. Indulgent staff members treat guests like members—even children get milk and cookies at bedtime." Concierge.com 2008 Gold List

[Sign up for Philadelphia news and updates](#)

Summer with Four Seasons

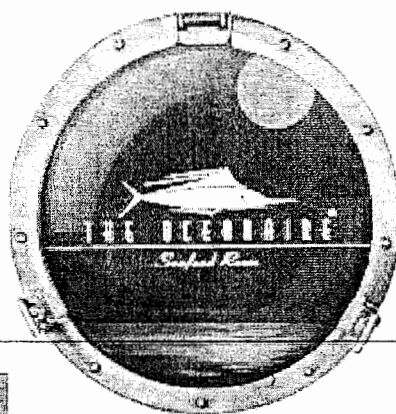
Experience More Package: Indulge a little more with a valuable spending credit this summer. [Check availability.](#)

 Local time: **8:21 p.m.**

 Local temp: **88°F/31°C**

PHILADELPHIA

PENNSYLVANIA



Address

700 Walnut Street
Philadelphia, PA 19106

Phone

215-625-8862

Dinner

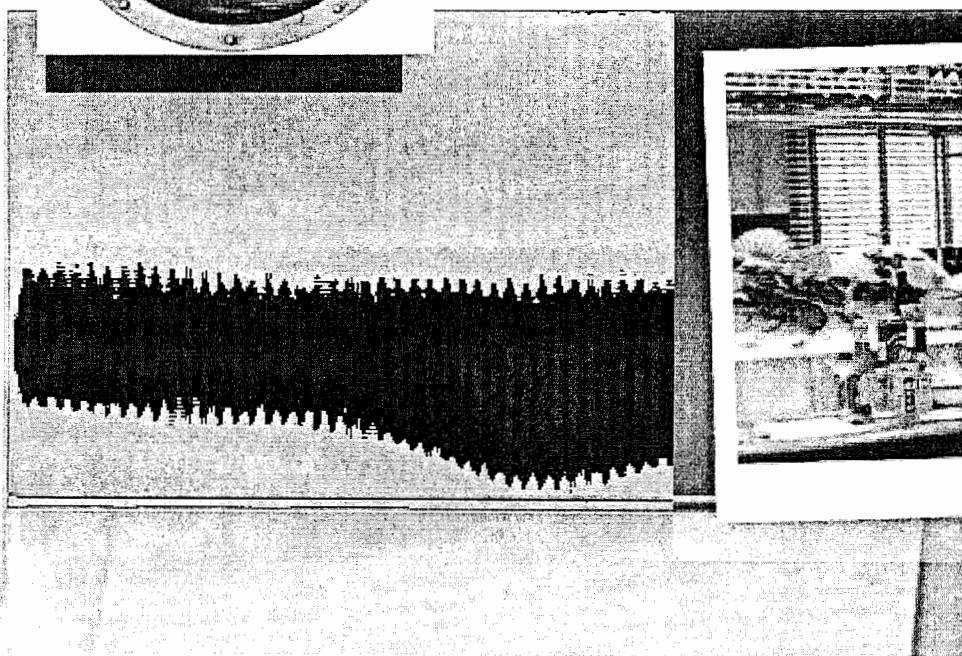
Mon-Thur 5PM-10PM

Fri-Sat 5PM-11PM

Sun 4PM-9PM

Proprietor, Darcie Marsh

Executive Chef, David Wiederholt

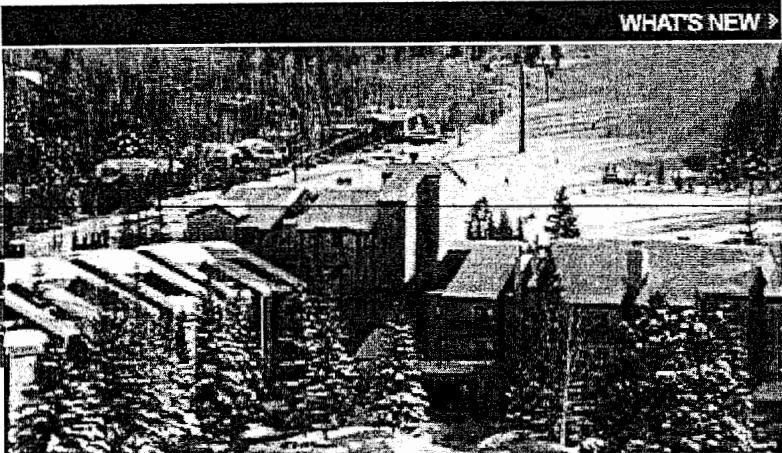


LION SQUARE LODGE
& CONFERENCE CENTER

800-525-1943

Español | Deutsch | Portuguese

- ACCOMMODATIONS
- AMENITIES
- MEETINGS & GROUPS
- AREA INFO & EVENTS
- WINTER ACTIVITIES
- SUMMER ACTIVITIES



**Ski-in / Ski-out
Access**

VACATION PLANNER

- ☐ Lodging ☐ Flights
- ☒ Lodging + Flight
- ☐ Promo or Group Code

Lift tickets? Airport transfers? Rental cars? Add them to your shopping cart before you check out!

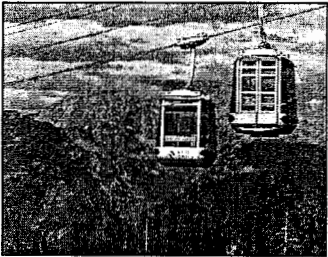
From airport	To Vail/Eagle	
Depart mm/dd/yy	Return mm/dd/yy	
# of Units (Up to 3)	Adults (18+)	Children (0-17)
1	1	0

We have units that sleep up to 8 people, so if you have more than 7 adults or 4 children in your party call (800) 525-1943 to make your reservation



Summer In Vail...

Lion Square Lodge in Vail, Colorado offers hotel rooms and 1-5 bedroom condominiums at the base of Vail Mountain next to the Vail Gondola in Lionshead Village. New as of February 2008, the five bedroom plus loft condominium has great space and overlooks Vail Mountain and the Eagle Bahn Gondola. Our Vail lodging accommodations are true ski-in/ski-out. Our restaurant, pool, hot tubs, services and amenities will enhance your Vail vacation.



Lion Square Lodge is the perfect property for families, conferences, weddings and groups of all sizes. Beautiful Vail Mountain surroundings are refreshing and our Lionshead Village location next to restaurants, shops and activities is exceptionally convenient.

We are certain your Vail experience will be a memorable one.

[Click here for specials](#)

[Click here for the latest weather forecast](#)



Summer | Winter

Enter Your Email Address





MIAMI BEACH
RESORT & SPA

AN LXR RESORT
4533 Collins Avenue
Miami Beach, Florida 3314
305-785-9000

MAP & DIRECTIONS | CONTACT U

RESERVATIONS

ACCOMMODATIONS

SPECIALS & PACKAGES

SERVICES & AMENITIES

HOTEL ACTIVITIES

ABOUT MIAMI BEACH

MEETINGS & EVENTS

PHOTO
GALLERY

PARTIAL WATER VIEW

BAY CITY VIEW

OCEANFRONT VIEW

JUNIOR SUITE

WATER VIEW SUITE

PREMIUM SUITE

PENTHOUSE SUITE



QUICK RESERVATIONS

Check-in Date	Nights	Adults	Children
JUL 29 2008	1	1	0

Best Rates Guaranteed

CHECK RATES

SUMMER GETAWAY

from **\$79** per night*
+ KIDS EAT FREE

BOOK NOW

E-MAIL EXCLUSIVES

Take advantage of special offers before they are seen on this site.

Privacy Policy

Enter E-Mail Address

SUBMIT

ENJOY FUN-FILLED ACTIVITIES ON US

LEARN MORE

INDULGE IN LUXURIOUS BEACHFRONT ACCOMMODATIONS, BREATHTAKING
OCEAN VIEWS, AND EASY ACCESS TO WORLD-FAMOUS ATTRACTIONS AT
THE MIAMI BEACH RESORT & SPA.

Refreshing Luxury in One of America's Premier Locales

With the spectacular Atlantic Ocean and its beaches at your doorstep, indulge in breathtaking oceanfront views, luxurious accommodations, and the nearby world-class shopping and nightlife destinations of South Beach.

An Enchanting Departure From Standard Miami Beach Hotels and Resorts

Sugar-sand beaches, glistening waters and world-class attractions. South Florida is truly one of America's most colorful locales. Discover refreshing luxury at the Miami Beach Resort & Spa, and savor the best of the "Gateway to the Americas." This distinctive hotel is surrounded by the Atlantic Ocean and the Intracoastal Waterway, and boasts 424 elegant guest rooms and suites - each brimming

with thoughtful amenities such as high-speed Internet access and floor-to-ceiling oceanfront views. Visit our Beachfront Aqua Sports Center to prepare for a day of exciting jet skiing or parasailing. Drift to sleep under the warm sunshine in a poolside cabana or on the white-sand beach nestled at your doorstep. If you can bear to leave our oceanfront Miami Beach resort, spend a day exploring world class museums and trendy boutiques and salons, and when evening falls, indulge in the sizzling restaurants and nightclubs of South Beach, just down the street. Our alluring resort offers the ideal blend of South Beach sun and Miami cool, all in a picture perfect setting.

- Situated directly on the beaches of the Atlantic Ocean, in the heart of vibrant Miami Beach, Florida
- Just 2.5 miles from the pulsing shopping and nightlife of South Beach
- Only 3 miles away from the famed attractions and restaurants of downtown Miami
- 20 minutes from the Miami International Airport and 22 miles from Fort Lauderdale International Airport

A Quieter Shade of Cool At Our Relaxing Miami Resort

Discover a paradise by the sea - a soul-stirring Miami Beach, Florida resort offering everything from indulgent and rejuvenating spa services at the Edouard de Paris Salon & Spa to stunning ocean views. Unwind our restored, Baroque-style lobby - which evokes the glory of Old Miami when Frank Sinatra headlined at our own Starlight Room. Cap off a relaxing day by our oceanfront Olympic-size pool with a majestic sunset or as you stroll along miles of powdery beach. Enjoy tropical cocktails and tantalizing cuisine at the Bistro & Lobby Lounge. Whether you're here for a golf getaway or corporate meeting, our breezy Miami Beach resort provides a full host of luxury features, including:

- **424 thoughtfully appointed guest rooms**, inclusive of 43 suites
- **45,000 square feet of flexible meeting and event space**
- **Pristine white-sand beach**, perfect for lazy afternoons in the sun or romantic evening strolls
- **Edouard de Paris Salon & Spa** - an intimate oasis of beauty and peace, featuring French luxury facials, world class body treatments and innovative coloring/hairstyling techniques
- **Heated outdoor Olympic-size pool**, with poolside cabanas
- **Beachfront Aqua Sports Center**
- **Privileges at Miami Beach Golf Course**
- **Beachfront fitness center**
- **Three on-site restaurants and bars**
- **Room service**

Discover a true gateway to paradise. A historic masterpiece on the water, the Miami Beach Resort & Spa features luxurious beachfront accommodations, breathtaking ocean views, and easy access to world-famous attractions, restaurants, and nightspots.

Book your Miami Beach hotel reservations online today for our **Best Rate Guarantee**.

[Resort Reservations](#) | [Flight + Resort Reservations](#) | [Travel Agents](#) | [Accommodations](#) | [About Miami Beach](#) | [Specials & Packages](#) | [Services & Amenities](#)
[Meetings & Events](#) | [Weddings](#) | [Photo Gallery](#) | [Map & Directions](#) | [Current News](#) | [Contact Us](#) | [Home](#)

Shop VivreVoyager for Your Next LXR Vacation

***Plus applicable Resort Fee and taxes**

Miami Beach Resort & Spa, 4833 Collins Ave, Miami Beach, Florida 33140. 866-765-9090.

Copyright © 2008 Luxury Resorts. All rights reserved.

[LuxuryResorts.com](#) | [Affiliated Hotels](#) | [Privacy Policy](#)



LUXURY RESORTS
 & HOTELS

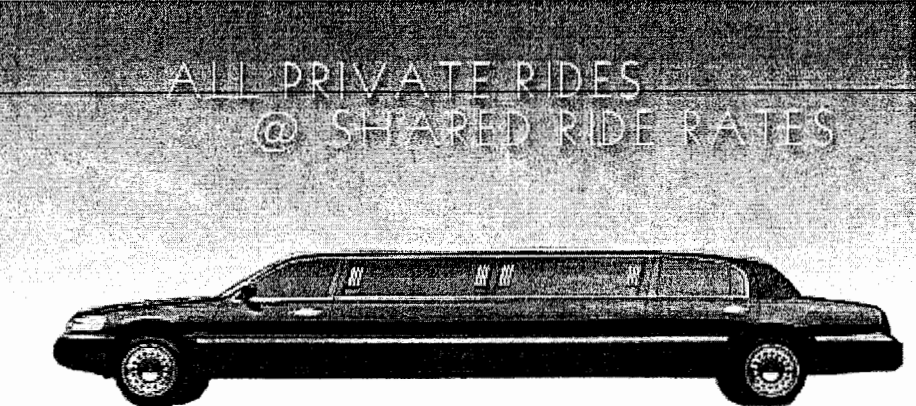
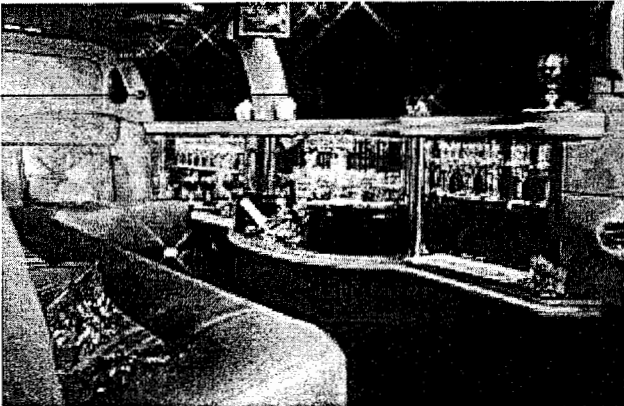


International Guest & Traveler's Association

Exclusive Coach

LUXURY LIMOUSINE SERVICE

Vehicles . Services . Online Reservation . Pricing . Contact Us . Links



Exclusive Coach is a full service limousine company serving the **Chicago Metropolitan area** with luxury sedans and stretch limos. **Exclusive Coach** wants to be the preferred service for companies and individuals that are demanding of personal service and professional transportation at reasonable rates. We offer private rides at shared ride prices.

We have earned our reputation for providing the highest level of service because of direct owner involvement. Our chauffeurs are professionally trained, licensed and fully insured.



Times-Tribune • The Citizens' Voice • The Standard-Speaker • Republican & Herald • The News-Item

RESTAURANTS • EVENTS • SUBMIT EVENT / VEN

DIRECTORY

Derry Beverage, Washingtonville, PA 17884

DIRECTORY

DO

INDULGE

LISTEN

WATCH

LOOK

DISCOVER

VIDEO

LIVE

PARADE

FIND:

NEAR:

Enter name or type of business

Enter city & state, or ZIP

City Guide > Washingtonville, PA > Beverages

Sponsored Results

Join thebar.com Now: Drink Recipes

Get Delicious Drink Recipes & Tips From Jack, Our Resident Mixologist.

thebar.com

Beverage

Beverage Online. See This Week's Featured Items.

www.Target.com

Beverage

Great liquor at affordable prices. Find & compare local Liquor Stores.

newyork.citysearch.com

Derry Beverage
RR 54
Washingtonville, PA 17884

Business Summary

Contact Derry Beverage

Phone: (570) 437-2207

Business Profile for Derry Beverage

Services: Beverages

Beer & Beverage

Are you familiar with Derry Beverage?

Update this listing

In the Neighborhood

Nearby Businesses

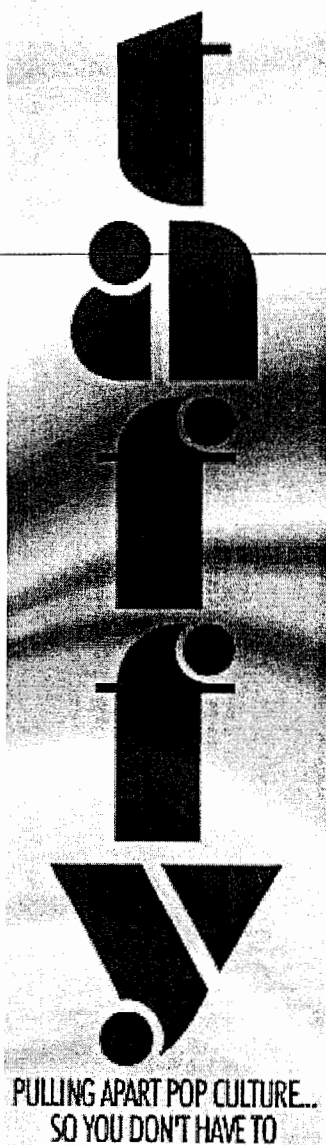
Nearby Hotels

Nearby Restaurants

Plea:

Map I

sweet



Always confirm the location w

Larger Map and Driving

Sponsored Results

We deliver everywhere. Wines, Liquors & Beer.
Custom gourmet baskets & bottles. Gift wrapped with a message card.
<http://Send.com/liquor>

just-drinks.com - Global Drinks Business News and Research
Alcoholic beverage and soft drinks sector news, articles and research. Global busi
producers, on and off trade.
www.just-drinks.com

Beverage Industry Experts

We help bring new beverage brands to life from start to store!
www.powerbrands.us

Add New Listing

Total time: 1.855s (0.0s)



[Home](#) | [Do](#) | [Indulge](#) | [Listen](#) | [Watch](#) | [Look](#) | [Discover](#) | [Video](#) | [Live](#) | [Pa](#)

©2008 Times-Shamrock Communications



Copyright 2008 Local.com Corporation - US Patent Numbers 7,200,413 and 7
Local search by PremierGuide, a Local.com company. Some data provided by



Driven to be there for you.

About LimoLink

» LIMOLINK IS UNIQUE

Unique in the way we run our company. Unique in the way we cater to our clients. Unlike traditional limousine service providers, LimoLink delivers consistent, superior service by utilizing a comprehensive service model and technology enabled quality control system.

LimoLink is one of the world's largest suppliers of ground transportation services, currently providing access to 7,000 limousines and sedans through 650 locations in 570 cities. We provide service at 700 commercial airports and 5000 general aviation facilities in 100 countries. LimoLink utilizes chauffeured sedans, limousines, vans, minibuses, and motor coaches to provide service for airport pick-ups and drop-offs, corporate aviation/general aviation transfers, inter-office transfers, business and association meetings, conventions, road shows, promotional tours, and special events.

LimoLink provides the finance community, corporate aviation departments, charter services, travel agents, and executive clientele with a comprehensive, worldwide, chauffeured ground transportation solution.

© LimoLink 2006 | 701 Tama St. Building A. Marion, IA 52302 | Reservations: 877.798.5466

DISCUSSION QUESTIONS TOTALLY WIRED

CHAPTER ONE MEET JUDY JETSON: TOTALLY WIRED TEEN

1. Think back to when you were a teenager. What “technology” did you have growing up? How did you listen to music? Where did you hang out with friends? How did you stay in touch with friends?
2. Do you remember there being a moral panic over some form of media (music, television, movies) when you were growing up? What were your parents most afraid of (about your media experience) when it came to you? Did they put limits on how much TV you watched or time you spent on the phone?
3. What do you see as the biggest differences between your generation and the current generation of teenagers? How is your parenting style and approach different from your parents’?
4. Read through the timeline in chapter one detailing “The Birth of the Totally Wired Teen.” At what point are you unfamiliar with the technology or companies being discussed?
5. Have you talked about the internet and cell phones with your teen? If so, what did you discuss? How did they react? Did you feel comfortable having the conversation? Why or why not?

CHAPTER TWO DIARIES GO DIGITAL

1. Did you keep a diary when you were a teen? If so, what sorts of entries did you write? What purpose did it serve in your life back then? Did you ever share your diary with anyone?
2. What was your view of privacy and how did your parents feel about it?
3. Many teens today maintain online diaries or blogs that anyone can read. Have you asked your teen if they have a blog, and if they are ok with you reading it? Would you search out your teen’s blog without their permission and read it? Why or why not?
4. What information are you comfortable with your teen sharing on a public blog? What about on a blog that can only be read by their friends?
5. How would you react if another parent or teacher discovered inappropriate content on your teen’s blog?
6. If you were a teen today, would you keep a public blog or a private blog just for your friends? Talk about the reasons behind your answer.
7. What would you do if you saw something inappropriate on the page or blog of one of your child’s friends? Would you talk to the peer’s parents?



[Contact](#) [Links](#)

[Introduction](#)

Admiral
Chauffeur
Cars

Nottingham's Leading
Chauffeur and Airport
Transfer Company



[Corporate Travel](#)

[Airport Transfer](#)

[Wedding Car Hire](#)

[MercedesMPVHire](#)

Airport Transfer

Airport transfers account for about forty percent of our business. We cover all Airports in the UK, 24 hours a day. Following a long flight, driving yourself home can be extremely tiring and stressful so why not let us do the driving! Our Chauffeurs will greet you at the Airport, attend to your baggage and will ensure that you arrive safely to your destination.



[Introduction](#) [Corporate Travel](#) [Airport Transfer](#) [Wedding Car Hire](#) [MercedesMPVHire](#) [Contact](#) [Links](#)

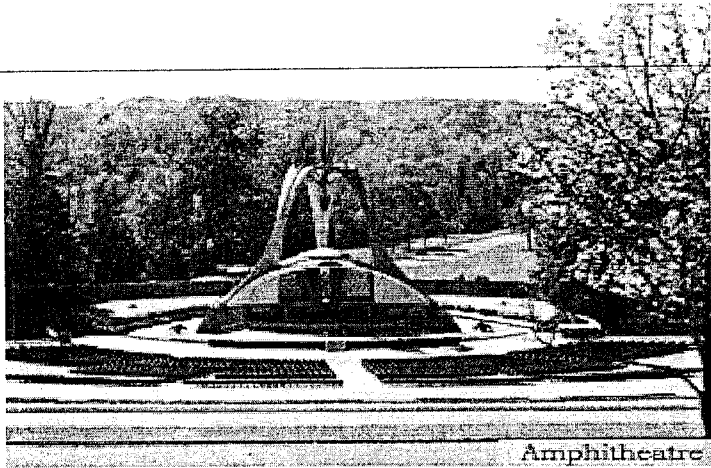


freestar

© 2007 Admiral Chauffeur Cars



- About Us
- Events
- Devotional Areas
- Mass Times
- Shrine Ministries
- Guest Services
- Banquets/Meetings
- Catalog
- Gift Shop
- Mass Cards
- Hotel
- Restaurant
- Retirement Living
- Support the Oblates
- Contact Us



Amphitheatre

The National Shrine of Our Lady of the Snows offers a peaceful atmosphere on over 200 beautifully landscaped acres with full, modern facilities. With more than one million visitors each year, the Shrine has a wide array of services to keep you spiritually and physically refreshed during your visit.

Upcoming Events

ANNUAL
Healing & Hope
NOVENA
July 28 - August 5, 2008



Each evening begins with Mass
Special Homilist
Special prayers for healing
Candlelight rosary procession





RESORT

ACCOMMODATIONS

**LUXURY HOME
RENTALS**

SPA & FITNESS

FOOD & DRINK

**MEETINGS &
WEDDINGS**

SPECIAL PACKAGES

RESERVATIONS

CONTACT

PRESS ROOM

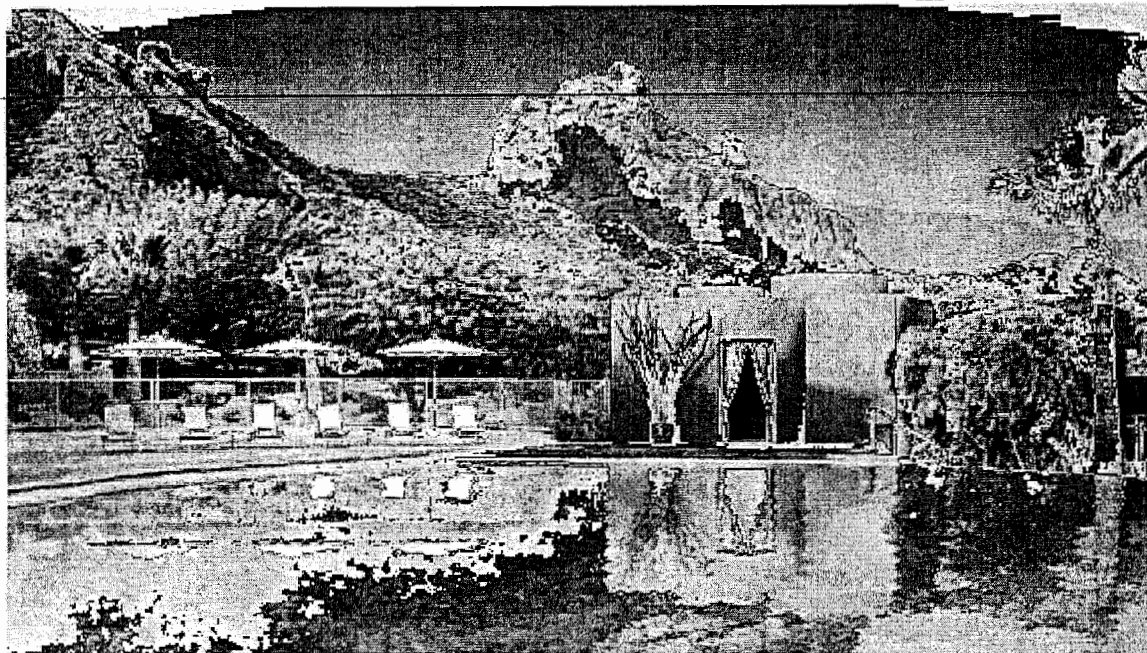
**EXPERIENCE
SANCTUARY**

GIFT CARDS

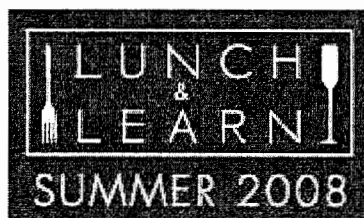
EMPLOYMENT

PRINT THIS PAGE

EMAIL THIS PAGE



© 2006 Sanctuary Camelback Mountain Resort & Spa



A gift of travel

When you book online,
Sanctuary will send you a year's
subscription to
Travel & Leisure
magazine.

CONDÉ NAST TRAVELER READER'S CHOICE AWARD 2006
"# 1 RESORT IN U.S."

© 2006 SANCTUARY CAMELBACK MOUNTAIN, 5700 EAST McDONALD DRIVE, PARADISE VALLEY, ARIZONA 85253

TELEPHONE 480.948.2100

RESERVATIONS 800.245.2051



Contact Us

200 Country Club Pkwy | Mt Laurel, NJ | 08054

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: May 2008

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,275,970	1,148,033	5,869,380	4,593,410	15,853,455	15,727,032
2. Commercial Sales.....	1,012,295	823,172	4,461,632	3,449,338	11,784,443	11,601,199
3. Industrial Sales.....	338,648	336,627	1,518,000	1,179,352	4,018,916	3,939,922
4. Other Sales.....	578,175	500,688	2,667,064	2,088,889	7,217,171	7,200,580
5. Total Operating Revenues (Item 1-4).....	3,205,087	2,808,520	14,516,076	11,310,989	38,873,985	38,468,733
Operating Expenses						
6. Source of Supply Expense.....	17,567	15,617	74,801	57,234	207,570	207,107
7. Pumping and Water Treatment Expense.....	384,027	418,024	2,044,857	1,660,830	4,871,815	4,905,333
8. Transmission and Distribution-Operation.....	65,164	62,040	311,584	246,420	764,828	752,946
9. Transmission and Distribution-Maintenance.....	114,693	89,374	580,893	466,199	1,423,543	1,439,312
10. Customer Accounts and Sales Expense.....	167,705	107,318	637,788	470,083	1,563,959	1,619,683
11. Administrative and General Expense.....	1,172,392	1,049,912	5,381,278	4,208,886	12,624,872	12,475,266
12. Depreciation and Amortization.....	398,282	395,955	2,065,222	1,666,940	4,717,077	4,711,151
13. Taxes Other Than Income Taxes.....	346,855	322,297	1,622,604	1,275,749	3,914,929	3,877,997
14. Income Taxes.....	106,464	165,105	259,440	152,976	2,379,519	2,238,959
15. Total Operating Expenses (Item 6-14).....	2,773,150	2,625,642	12,978,467	10,205,317	32,468,112	32,227,754
16. Net Operating Income (Item 5 less 15).....	431,936	182,878	1,537,609	1,105,672	6,405,873	6,240,979
17. Other Income.....	(1,781)	1,327	3,861	5,642	73,197	72,850
18. Miscellaneous Income Deductions.....	12,562	1,411	35,186	22,624	92,622	87,638
19. Interest Charges.....	286,086	285,413	1,499,378	1,213,292	3,722,728	3,755,067
20. Net Income.....	131,508	(102,619)	6,906	(124,602)	2,663,720	2,471,124
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	202,808,858	201,792,057	197,991,399	197,133,050		
22. Construction Work in Progress.....	1,714,634	1,625,769	1,980,709	1,994,341		
23. Utility Plant Acquisition Adjustment.....	74,850	74,850	94,984	99,010		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	58,525,620	58,115,219	57,074,758	56,806,560		
26. Materials and Supplies.....	346,991	354,020	317,129	318,704		
27. Unamortized Investment Credit.....	1,084,444	1,090,808	1,119,446	1,125,810		
28. Deferred Income Tax.....	17,355,004	17,062,306	17,583,556	17,681,194		
29. Contributions in Aid of Construction.....	8,443,042	8,392,985	8,318,827	8,305,272		
30. Customer Advances for Construction.....	7,037,005	6,968,196	6,281,592	6,191,802		
31. Preferred Stock.....	1,381,600	1,381,600	1,381,600	1,381,600		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	15,796,156	15,788,918	10,164,522	9,538,918		
34. Retained Earnings.....	20,365,306	20,113,655	20,602,183	20,521,737		
35. Long Term Debt.....(1).....	52,668,004	53,822,029	53,490,898	53,681,516		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MAY 2008

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$199,708,298	\$196,400,899
3	Plant Under Construction	1,530,225	1,980,709
4	Property Held For Future Use	0	0
5	Materials and Supplies	332,855	317,129
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	204,547,083	201,674,442
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	57,806,054	57,074,758
16	Accumulated Deferred Income Taxes	17,040,442	17,583,556
17	Unamortized Investment Credit - Pre 1971	36,961	37,864
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,341,690	8,318,827
21	Customer Advances for Construction	6,818,002	6,281,592
22	All Other A/	(343,196)	(327,740)
23			
24			
25			
26	Total Deductions	89,699,953	88,968,857
27			
28	Rate Base	\$114,847,130	\$112,705,585
29			
30	Net Operating Income	\$431,936	\$6,405,873
31	Adjustments to NOI		
32	Allowance for funds used during construction	9,233	59,998
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	13,030	116,506
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$454,199	\$6,582,377
40			
41			
42	Rate of return B/	4.75%	5.84%

A/ All Other

Acquisition adjustment	(\$74,850)	(\$94,984)
Accounts payable applicable to CWIP	16,225	53,825
Unpaid for materials and supplies	52,826	50,084
Taxes on CIAC-DEF, FIT & SIT	(337,397)	(336,665)
	(\$343,196)	(\$327,740)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

July 2, 2008

CONTINUING SURVEILLANCE CONSIDERATIONS – May 2008

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$235,045
	(including associated insurance & taxes)	

2008

	JAN. 2008	FEB. 2008	MARCH 2008	APRIL 2008	MAY 2008	JUNE 2007	JULY 2007	AUGUST 2007	SEPTEMBER 2007	OCTOBER 2007	NOVEMBER 2007	DECEMBER 2007
WAGES & RELATED ITEMS:												
INCREASE IN EXPENSES:												
TAX EFFECT @ 38.90%	(92,575)	(100,527)	(109,690)	(156,846)	(239,644)	(154,565)	(228,373)	(136,227)	(127,059)	(117,889)	(84,523)	(84,523)
EFFECT ON INCOME	\$145,408	\$158,055	\$170,702	\$246,356	\$235,045	\$242,775	\$228,373	\$213,971	\$199,669	\$185,167	\$120,113	\$132,760

[illegible]

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 05/08

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,363	5,347	22	183	69,915
37. 3/4"	140	136	2	13	291
38. 1"	303	1,429	24	144	1,900
39. 1 1/2"	21	358	7	70	456
40. 2"	13	1,070	82	300	1,465
41. 3"	1	41		6	48
42. 4"&Over		36	26	41	103
43. Totals	64,841	8,417	163	757	74,178

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

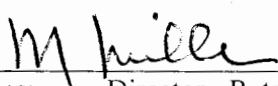
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: July 9, 20 09

(Signed)

Title and Address:


Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: April 2008

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,148,033	1,212,792	4,593,410	4,259,216	15,727,032	13,773,489
2. Commercial Sales.....	823,172	867,267	3,449,338	3,105,244	11,601,199	10,265,069
3. Industrial Sales.....	336,627	306,391	1,179,352	1,115,472	3,939,922	3,703,354
4. Other Sales.....	500,688	543,243	2,088,889	1,945,722	7,200,580	6,600,262
5. Total Operating Revenues (Item 1-4).....	2,808,520	2,929,694	11,310,989	10,425,654	38,468,733	34,342,174
Operating Expenses						
6. Source of Supply Expense.....	15,617	8,283	57,234	45,118	207,107	177,317
7. Pumping and Water Treatment Expense.....	418,024	404,060	1,660,830	1,551,053	4,905,333	5,089,439
8. Transmission and Distribution-Operation.....	62,040	48,803	246,420	246,666	752,946	737,650
9. Transmission and Distribution-Maintenance.....	89,374	106,596	466,199	604,656	1,439,312	1,577,526
10. Customer Accounts and Sales Expense.....	107,318	89,051	470,083	451,618	1,619,683	1,689,008
11. Administrative and General Expense.....	1,049,912	922,610	4,208,886	3,481,022	12,475,266	11,085,161
12. Depreciation and Amortization.....	395,955	391,987	1,666,940	1,480,154	4,711,151	4,521,373
13. Taxes Other Than Income Taxes.....	322,297	305,419	1,275,749	1,310,182	3,877,997	3,821,583
14. Income Taxes.....	165,105	154,362	152,976	31,414	2,238,959	805,062
15. Total Operating Expenses (Item 6-14).....	2,625,642	2,431,171	10,205,317	9,201,883	32,227,754	29,504,119
16. Net Operating Income (Item 5 less 15).....	182,878	498,523	1,105,672	1,223,771	6,240,979	4,838,055
17. Other Income.....	1,327	(969)	5,642	7,061	72,850	11,680
18. Miscellaneous Income Deductions.....	1,411	12	22,624	7,515	87,638	22,388
19. Interest Charges.....	285,413	314,905	1,213,292	1,233,905	3,755,067	3,507,793
20. Net Income.....	(102,619)	182,637	(124,602)	(10,588)	2,471,124	1,319,554
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	201,792,057	192,248,713	197,133,050	183,288,573		
22. Construction Work in Progress.....	1,625,769	930,414	1,994,341	2,021,566		
23. Utility Plant Acquisition Adjustment.....	74,850	0	99,010	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	58,115,219	54,897,149	56,806,560	52,944,568		
26. Materials and Supplies.....	354,020	341,950	318,704	320,465		
27. Unamortized Investment Credit.....	1,090,808	1,167,176	1,125,810	1,208,543		
28. Deferred Income Tax.....	17,062,306	18,509,031	17,681,194	17,694,863		
29. Contributions in Aid of Construction.....	8,392,985	8,236,196	8,305,272	7,680,956		
30. Customer Advances for Construction.....	6,968,196	5,911,187	6,191,802	5,354,062		
31. Preferred Stock.....	1,381,600	1,381,600	1,381,600	1,381,808		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	15,788,918	8,288,918	9,538,918	6,247,177		
34. Retained Earnings.....	20,113,655	19,456,682	20,521,737	19,716,366		
35. Long Term Debt.....(1).....	53,822,029	53,822,029	53,681,516	42,317,111		

(1) Includes Capital Lease

May 14, 2008

CONTINUING SURVEILLANCE CONSIDERATIONS – April 2008

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$246,356

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 04/08

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,180	5,342	23	183	69,629
37. 3/4"	137	136	2	13	287
38. 1"	291	1,408	25	143	1,856
39. 1 1/2"	21	350	7	71	446
40. 2"	13	1,059	82	297	1,449
41. 3"		36		6	44
42. 4"&Over		34	26	41	101
43. Totals	64,642	8,365	165	754	73,926

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 5/23/08, 20__

(Signed) _____

Title and Address: .

M. Hall
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

12

Company Name: Tennessee-American Water Co.
Month of Report: March 2008

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,125,716	1,027,431	3,445,377	3,046,424	15,791,791	13,721,799
2. Commercial Sales.....	949,319	808,716	2,626,166	2,237,977	11,645,294	10,157,015
3. Industrial Sales.....	289,557	284,242	842,725	809,081	3,909,687	3,708,929
4. Other Sales.....	552,816	495,193	1,588,201	1,402,479	7,243,135	6,591,001
5. Total Operating Revenues (Item 1-4).....	2,917,407	2,615,581	8,502,469	7,495,961	38,589,907	34,178,744
Operating Expenses						
6. Source of Supply Expense.....	1,529	11,285	41,617	36,835	199,773	180,881
7. Pumping and Water Treatment Expense.....	456,574	388,277	1,242,806	1,146,993	4,891,369	5,019,440
8. Transmission and Distribution-Operation.....	57,531	59,129	184,380	197,863	739,710	747,309
9. Transmission and Distribution-Maintenance.....	114,600	115,286	376,825	498,060	1,456,534	1,574,960
10. Customer Accounts and Sales Expense.....	90,388	128,672	362,764	362,567	1,601,416	1,751,313
11. Administrative and General Expense.....	982,675	766,835	3,158,974	2,558,412	12,343,154	11,055,189
12. Depreciation and Amortization.....	494,483	365,080	1,270,985	1,088,166	4,707,184	4,481,362
13. Taxes Other Than Income Taxes.....	330,376	403,323	953,452	1,004,763	3,861,119	3,827,640
14. Income Taxes.....	(51,284)	38,582	(12,129)	(122,948)	2,230,344	782,297
15. Total Operating Expenses (Item 6-14).....	2,476,873	2,276,471	7,579,674	6,770,711	32,030,603	29,420,391
16. Net Operating Income (Item 5 less 15).....	440,534	339,110	922,795	725,250	6,559,304	4,758,353
17. Other Income.....	2,054	572	4,315	8,029	70,554	10,831
18. Miscellaneous Income Deductions.....	19,182	3,200	21,213	7,503	86,238	17,043
19. Interest Charges.....	308,030	309,985	927,879	919,001	3,784,559	3,456,785
20. Net Income.....	115,376	26,497	(21,982)	(193,225)	2,759,061	1,295,356
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	200,856,496	190,986,422	196,337,771	181,754,744		
22. Construction Work in Progress.....	1,798,540	1,578,516	1,936,395	2,125,089		
23. Utility Plant Acquisition Adjustment.....	74,850	0	92,773	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.....(1).....	57,706,919	54,492,688	56,538,387	52,606,244		
26. Materials and Supplies.....	331,563	291,867	317,698	314,749		
27. Unamortized Investment Credit.....	1,097,172	1,173,540	1,132,174	1,214,907		
28. Deferred Income Tax.....	16,879,533	18,464,214	17,801,754	17,595,320		
29. Contributions in Aid of Construction.....	8,351,057	8,234,959	8,292,206	7,597,814		
30. Customer Advances for Construction.....	6,795,063	5,996,469	6,103,718	5,266,989		
31. Preferred Stock.....	1,381,600	1,381,600	1,381,600	1,381,850		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	15,788,918	8,288,918	8,913,918	5,955,498		
34. Retained Earnings.....	20,214,943	19,270,362	20,466,989	19,702,121		
35. Long Term Debt.....(1).....	52,689,527	39,957,691	53,681,516	41,161,010		

(1) Includes Capital Lease

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 03/08

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,083	5,340	23	183	69,629
37. 3/4"	135	137	2	13	287
38. 1"	285	1,401	25	145	1,856
39. 1 1/2"	21	348	7	70	446
40. 2"	14	1,056	82	297	1,449
41. 3"		38		6	44
42. 4"&Over		34	26	41	101
43. Totals	64,538	8,354	165	755	73,812

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 5-1-08, 20

(Signed) Michael F. Miller
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED MARCH 2008

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$199,040,525	\$194,747,271
3	Plant Under Construction	1,436,908	1,936,395
4	Property Held For Future Use	0	0
5	Materials and Supplies	321,089	317,698
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	203,774,227	199,977,069
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	57,463,144	56,538,387
16	Accumulated Deferred Income Taxes	16,928,299	17,801,754
17	Unamortized Investment Credit - Pre 1971	37,219	38,380
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,290,808	8,292,206
21	Customer Advances for Construction	6,694,936	6,103,718
22	All Other A/	(336,503)	(325,006)
23			
24			
25			
26	Total Deductions	89,077,903	88,449,439
27			
28	Rate Base	\$114,696,324	\$111,527,630
29			
30	Net Operating Income	\$440,534	\$6,559,304
31	Adjustments to NOI		
32	Allowance for funds used during construction	2,348	63,239
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	13,013	134,750
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$455,894	\$6,757,293
40			
41			
42	Rate of return B/	4.77%	6.06%

A/ All Other

Acquisition adjustment	(\$74,850)	(\$92,773)
Accounts payable applicable to CWIP	13,883	53,825
Unpaid for materials and supplies	60,606	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(336,142)
	(\$336,503)	(\$325,006)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED FEBRUARY 2008

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$198,927,789	\$193,924,765
3	Plant Under Construction	1,256,092	1,918,060
4	Property Held For Future Use	0	0
5	Materials and Supplies	315,852	314,390
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	203,475,438	199,132,920
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	57,341,257	56,270,534
16	Accumulated Deferred Income Taxes	16,952,682	17,933,811
17	Unamortized Investment Credit - Pre 1971	37,348	38,638
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,260,684	8,282,531
21	Customer Advances for Construction	6,644,873	6,037,168
22	All Other A/	(348,179)	(318,768)
23			
24			
25			
26	Total Deductions	88,888,665	88,243,914
27			
28	Rate Base	<u>\$114,586,773</u>	<u>\$110,889,006</u>
29			
30	Net Operating Income	\$314,093	\$6,406,308
31	Adjustments to NOI		
32	Allowance for funds used during construction	2,297	74,016
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	13,001	142,456
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	<u>\$329,391</u>	<u>\$6,622,780</u>
40			
41			
42	Rate of return B/	<u>3.45%</u>	<u>5.97%</u>

A/ All Other

Acquisition adjustment	(\$74,850)	(\$86,535)
Accounts payable applicable to CWIP	8,313	53,825
Unpaid for materials and supplies	54,500	50,084
Taxes on CIAC-DEF, FIT & SIT	(336,142)	(336,142)
	<u>(\$348,179)</u>	<u>(\$318,768)</u>

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	<u>2,456,357</u>
Working cash	<u>\$1,385,205</u>

April 1, 2008

CONTINUING SURVEILLANCE CONSIDERATIONS – February 2008

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$158,055

2008

	JAN 2008	FEB 2007	MARCH 2007	APRIL 2007	MAY 2007	JUNE 2007	JULY 2007	AUGUST 2007	SEPTEMBER 2007	OCTOBER 2007	NOVEMBER 2007	DECEMBER 2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
WAGES & RELATED ITEMS.												
INCREASE IN EXPENSES	\$237,983	\$258,682	\$259,281	\$444,483	\$420,912	\$397,340	\$373,769	\$350,198	\$326,627	\$303,056	\$196,584	\$217,283
TAX EFFECT @ 38.90%	(92,575)	(100,627)	(100,627)	(172,904)	(163,735)	(154,965)	(136,227)	(139,227)	(127,889)	(127,959)	(76,471)	(84,523)
EFFECT ON INCOME	\$145,408	\$158,055	\$158,654	\$271,579	\$257,177	\$242,375	\$237,542	\$210,973	\$198,738	\$175,097	\$119,113	\$132,760

[illegible]

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 02/08

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,082	5,326	23	183	69,614
37. 3/4"	134	137	2	13	286
38. 1"	275	1,395	25	145	1,840
39. 1 1/2"	21	343	7	71	442
40. 2"	14	1,048	82	297	1,441
41. 3"		39		7	46
42. 4"&Over		34	26	42	102
43. Totals	64,526	8,322	165	758	73,771

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

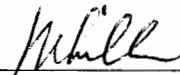
N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4-8-08, 20__

(Signed)

Title and Address:


Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

13

PSC-3.06

Company Name: Tennessee-American Water Co.
Month of Report: January 2008

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,197,361	1,052,870	1,197,361	1,052,870	15,537,329	13,618,306
2. Commercial Sales.....	820,987	714,480	820,987	714,480	11,363,612	10,165,597
3. Industrial Sales.....	191,567	243,964	191,567	243,964	3,823,645	3,650,192
4. Other Sales.....	489,836	438,927	489,836	438,927	7,108,322	6,543,252
5. Total Operating Revenues (Item 1-4).....	2,699,750	2,450,241	2,699,751	2,450,241	37,832,908	33,977,347
Operating Expenses						
6. Source of Supply Expense.....	17,372	12,832	17,372	12,832	199,532	187,801
7. Pumping and Water Treatment Expense.....	387,044	381,634	387,044	381,634	4,800,966	4,918,979
8. Transmission and Distribution-Operation.....	59,657	66,847	59,657	66,847	746,003	729,195
9. Transmission and Distribution-Maintenance.....	142,742	143,614	142,742	143,614	1,576,897	1,420,509
10. Customer Accounts and Sales Expense.....	143,326	108,565	143,326	108,565	1,635,979	1,730,844
11. Administrative and General Expense.....	1,118,814	934,809	1,118,814	934,809	11,940,396	11,320,761
12. Depreciation and Amortization.....	388,302	362,403	388,302	362,403	4,550,264	4,463,946
13. Taxes Other Than Income Taxes.....	303,297	305,371	303,297	305,371	3,910,356	3,655,280
14. Income Taxes.....	(28,972)	(72,438)	(28,972)	(72,438)	2,151,375	815,118
15. Total Operating Expenses (Item 6-14).....	2,531,584	2,243,638	2,531,582	2,243,638	31,511,768	29,242,433
16. Net Operating Income (Item 5 less 15).....	168,166	206,604	168,169	206,604	6,321,140	4,734,914
17. Other Income.....	(3,277)	6,990	(3,277)	6,990	64,001	10,266
18. Miscellaneous Income Deductions.....	(1,983)	3,413	(1,983)	3,413	67,133	31,978
19. Interest Charges.....	314,508	305,041	314,508	305,041	3,773,347	3,356,705
20. Net Income.....	(147,636)	(94,860)	(147,633)	(94,860)	2,544,661	1,356,497
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	200,420,308	188,435,291	194,536,628	179,222,593		
22. Construction Work in Progress.....	1,145,048	2,353,071	1,989,089	1,911,330		
23. Utility Plant Acquisition Adjustment.....	74,850	0	90,391	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	57,137,674	53,916,586	55,995,234	51,972,911		
26. Materials and Supplies.....	324,012	272,775	314,177	315,412		
27. Unamortized Investment Credit.....	1,109,900	1,186,268	1,144,902	1,227,635		
28. Deferred Income Tax.....	16,924,380	17,595,928	17,985,642	17,481,106		
29. Contributions in Aid of Construction.....	8,264,658	8,238,889	8,281,060	7,420,889		
30. Customer Advances for Construction.....	6,662,842	5,688,465	5,955,693	5,116,069		
31. Preferred Stock.....	1,381,600	1,381,600	1,381,600	1,381,933		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	8,288,918	8,288,918	5,372,139		
34. Retained Earnings.....	20,508,787	19,351,690	20,281,682	19,680,835		
35. Long Term Debt.....(1).....	53,730,713	39,871,057	52,715,638	39,919,764		

(1) Includes Capital Lease

March 27, 2008

CONTINUING SURVEILLANCE CONSIDERATIONS – January 2008

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$145,408
	(including associated insurance & taxes)	

2008

	JAN 2008	FEB 2007	MARCH 2007	APRIL 2007	MAY 2007	JUNE 2007	JULY 2007	AUGUST 2007	SEPTEMBER 2007	OCTOBER 2007	NOVEMBER 2007	DECEMBER 2007
WAGES & RELATED ITEMS:												
INCREASE IN EXPENSES	\$237,983	\$211,135	\$259,281	\$444,483	\$420,912	\$397,340	\$373,769	\$350,198	\$326,627	\$303,056	\$196,584	\$217,283
TAX EFFECT @ 38.90%	(92,575)	(82,132)	(100,860)	(172,904)	(163,735)	(154,565)	(136,227)	(135,396)	(127,055)	(117,889)	(84,523)	(84,523)
EFFECT ON INCOME	\$145,408	\$129,003	\$158,421	\$271,579	\$257,177	\$242,775	\$228,373	\$213,971	\$199,569	\$185,167	\$120,113	\$132,760

[illegible]

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 01/08

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,108	5,323	23	183	69,637
37. 3/4"	133	137	2	13	285
38. 1"	274	1,394	25	145	1,838
39. 1 1/2"	21	343	7	71	442
40. 2"	14	1,047	82	297	1,440
41. 3"		39		6	45
42. 4"&Over		34	26	42	102
43. Totals	64,550	8,317	165	757	73,789

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 4-2, 20 08

(Signed)

Title and Address:

Michael F. Mule
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338,
Chattanooga, TN 37401

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED JANUARY 2008

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$197,987,878	\$192,946,128
3	Plant Under Construction	1,464,511	1,989,089
4	Property Held For Future Use	0	0
5	Materials and Supplies	314,350	314,177
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	202,742,444	198,225,099
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	56,953,019	55,995,234
16	Accumulated Deferred Income Taxes	16,861,653	17,985,642
17	Unamortized Investment Credit - Pre 1971	37,606	38,896
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,258,399	8,281,060
21	Customer Advances for Construction	6,312,933	5,955,693
22	All Other A/	(224,451)	(322,624)
23			
24			
25			
26	Total Deductions	88,199,159	87,933,901
27			
28	Rate Base	\$114,543,285	\$110,291,198
29			
30	Net Operating Income	\$168,166	\$6,321,140
31	Adjustments to NOI		
32	Allowance for funds used during construction	1,415	87,145
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,996	148,042
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$182,578	\$6,556,327
40			
41			
42	Rate of return B/	1.91%	5.94%
A/ All Other			
	Acquisition adjustment	(\$74,850)	(\$90,391)
	Accounts payable applicable to CWIP	134,313	53,825
	Unpaid for materials and supplies	52,228	50,084
	Taxes on CIAC-DEF. FIT & SIT	(336,142)	(336,142)
		(\$224,451)	(\$322,624)
B/ Rate of return - Monthly (L25 / L18) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$543,000	
	Incidental collection	(1,981,081)	
	Average cash	366,929	
	Other components	2,456,357	
	Working cash	\$1,385,205	

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: November 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,482,420	936,497	10,124,801	11,347,456	15,453,170	13,642,845
2. Commercial Sales.....	981,469	757,765	7,195,332	8,506,812	11,061,487	10,252,084
3. Industrial Sales.....	330,745	316,038	2,441,814	3,084,653	3,782,627	3,747,176
4. Other Sales.....	674,571	453,372	4,472,590	5,288,892	7,070,179	6,254,845
5. Total Operating Revenues (Item 1-4).....	3,469,206	2,463,671	24,234,537	28,227,813	37,367,463	33,896,950
Operating Expenses						
6. Source of Supply Expense.....	31,939	2,912	163,181	156,819	200,481	175,256
7. Pumping and Water Treatment Expense.....	461,194	367,723	3,017,567	4,136,659	4,696,956	4,814,592
8. Transmission and Distribution-Operation.....	61,781	52,225	484,579	638,530	727,349	762,431
9. Transmission and Distribution-Maintenance.....	114,882	99,580	1,028,033	1,185,757	1,537,889	1,377,536
10. Customer Accounts and Sales Expense.....	119,976	161,805	1,052,240	1,379,110	1,676,874	1,713,648
11. Administrative and General Expense.....	1,255,196	944,618	7,756,220	8,709,364	12,238,341	10,868,910
12. Depreciation and Amortization.....	400,441	351,938	3,056,386	3,737,436	4,575,657	4,435,317
13. Taxes Other Than Income Taxes.....	325,399	326,544	2,560,865	3,080,205	4,043,582	3,705,168
14. Income Taxes.....	146,389	(284,796)	1,149,911	646,130	2,028,719	1,379,902
15. Total Operating Expenses (Item 6-14).....	2,917,197	2,022,549	20,268,982	23,670,010	31,725,848	29,232,760
16. Net Operating Income (Item 5 less 15).....	552,009	441,123	3,965,555	4,557,803	5,641,615	4,664,190
17. Other Income.....	6,281	(3,470)	73,911	4,976	78,508	(3,523)
18. Miscellaneous Income Deductions.....	7,344	5,188	52,771	26,343	65,407	28,232
19. Interest Charges.....	310,218	281,211	2,535,117	2,706,729	3,754,654	3,207,985
20. Net Income.....	240,728	151,255	1,451,578	1,829,707	1,900,062	1,424,450
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	196,568,293	181,125,770	191,411,474	175,311,146		
22. Construction Work in Progress.....	2,394,708	3,023,591	2,126,164	2,099,989		
23. Utility Plant Acquisition Adjustment.....	123,170	0	92,121	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort...(1).....	57,024,025	52,762,903	55,073,046	51,103,540		
26. Materials and Supplies.....	297,679	273,964	336,574	289,915		
27. Unamortized Investment Credit.....	1,128,992	1,205,360	1,163,994	1,246,728		
28. Deferred Income Tax.....	17,699,043	17,222,957	18,070,343	17,416,798		
29. Contributions in Aid of Construction.....	8,336,954	7,287,070	8,200,775	7,190,748		
30. Customer Advances for Construction.....	5,871,038	5,411,118	5,822,336	4,970,191		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,558	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	7,997,252	4,788,768		
34. Retained Earnings.....	21,173,241	20,355,677	20,031,211	19,594,770		
35. Long Term Debt.....(1).....	53,761,874	39,899,407	49,250,488	40,221,136		

(1) Includes Capital Lease

Handwritten: 6/11/07
65
60

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED NOVEMBER 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$191,065,340	\$189,820,974
3	Plant Under Construction	2,046,409	2,126,164
4	Property Held For Future Use	0	0
5	Materials and Supplies	310,011	336,574
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	196,397,465	195,259,417
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	55,451,638	55,073,047
16	Accumulated Deferred Income Taxes	18,197,423	18,070,343
17	Unamortized Investment Credit - Pre 1971	39,412	39,670
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,283,631	8,200,775
21	Customer Advances for Construction	5,878,028	5,822,336
22	All Other A/	(351,334)	(334,248)
23			
24			
25			
26	Total Deductions	87,498,798	86,871,923
27			
28	Rate Base	\$108,898,667	\$108,387,494
29			
30	Net Operating Income	\$552,009	\$5,641,615
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,930	128,863
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,355	144,996
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$570,293	\$5,915,474
40			
41			
42	Rate of return B/	6.28%	5.46%
A/ All Other			
	Acquisition adjustment	(\$98,228)	(\$92,121)
	Accounts payable applicable to CWIP	28,565	53,825
	Unpaid for materials and supplies	54,471	50,084
	Taxes on CIAC-DEF, FIT & SIT	(336,142)	(346,036)
		(\$351,334)	(\$334,248)
B/ Rate of return - Monthly (L25 / L18) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$543,000	
	Incidental collection	(1,981,081)	
	Average cash	366,929	
	Other components	2,456,357	
	Working cash	\$1,385,205	

January 29, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – November 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$120,113

2007

	JAN 2007	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(1) WAGES & RELATED ITEMS:												
INCREASE IN EXPENSES	\$162,989	\$211,135	\$259,281	\$444,483	\$420,912	\$397,340	\$373,769	\$350,198	\$326,627	\$303,056	\$196,584	0
TAX EFFECT @ 38.90%	(63,403)	(82,132)	(100,860)	(172,904)	(163,735)	(154,565)	(145,396)	(136,227)	(127,058)	(117,889)	(76,471)	
EFFECT ON INCOME	\$99,586	\$129,003	\$158,421	\$271,579	\$257,177	\$242,775	\$228,373	\$213,971	\$199,569	\$185,167	\$120,113	\$0

[illegible]

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 11/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,926	5,314	23	184	69,447
37. 3/4"	133	139	2	13	287
38. 1"	274	1,392	25	147	1,838
39. 1 1/2"	21	340	7	70	438
40. 2"	13	1,045	82	293	1,433
41. 3"		38		6	44
42. 4"&Over		34	26	41	101
43. Totals	64,367	8,302	165	754	73,588

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 2-1-08, 20__

(Signed)

Title and Address:

Michael A. Miller
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

WATER COMPANIES

Company Name: Tennessee-American Water Co.
Month of Report: October 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,482,420	936,497	10,124,801	11,347,456	15,453,170	13,642,845
2. Commercial Sales.....	981,469	757,765	7,195,332	8,506,812	11,061,487	10,252,084
3. Industrial Sales.....	330,745	316,038	2,441,814	3,084,653	3,782,627	3,747,176
4. Other Sales.....	674,571	453,372	4,472,590	5,288,892	7,070,179	6,254,845
5. Total Operating Revenues (Item 1-4).....	3,469,206	2,463,671	24,234,537	28,227,813	37,367,463	33,896,950
Operating Expenses						
6. Source of Supply Expense.....	31,939	2,912	163,181	156,819	200,481	175,256
7. Pumping and Water Treatment Expense.....	461,194	367,723	3,017,567	4,136,659	4,696,956	4,814,592
8. Transmission and Distribution-Operation.....	61,781	52,225	484,579	638,530	727,349	762,431
9. Transmission and Distribution-Maintenance.....	114,882	99,580	1,028,033	1,185,757	1,537,889	1,377,536
10. Customer Accounts and Sales Expense.....	119,976	161,805	1,052,240	1,379,110	1,676,874	1,713,648
11. Administrative and General Expense.....	1,255,196	944,618	7,756,220	8,709,364	12,238,341	10,868,910
12. Depreciation and Amortization.....	400,441	351,938	3,056,386	3,737,436	4,575,657	4,435,317
13. Taxes Other Than Income Taxes.....	325,399	326,544	2,560,865	3,080,205	4,043,582	3,705,168
14. Income Taxes.....	146,389	(284,796)	1,149,911	646,130	2,028,719	1,379,902
15. Total Operating Expenses (Item 6-14).....	2,917,197	2,022,549	20,268,982	23,670,010	31,725,848	29,232,760
16. Net Operating Income (Item 5 less 15).....	552,009	441,123	3,965,555	4,557,803	5,641,615	4,664,190
17. Other Income.....	6,281	(3,470)	73,911	4,976	78,508	(3,523)
18. Miscellaneous Income Deductions.....	7,344	5,188	52,771	26,343	65,407	28,232
19. Interest Charges.....	310,218	281,211	2,535,117	2,706,729	3,754,654	3,207,985
20. Net Income.....	240,728	151,255	1,451,578	1,829,707	1,900,062	1,424,450
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	196,568,293	181,125,770	191,411,474	175,311,146		
22. Construction Work in Progress.....	2,394,708	3,023,591	2,126,164	2,099,989		
23. Utility Plant Acquisition Adjustment.....	123,170	0	92,121	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	57,024,025	52,762,903	55,073,046	51,103,540		
26. Materials and Supplies.....	297,679	273,964	336,574	289,915		
27. Unamortized Investment Credit.....	1,128,992	1,205,360	1,163,994	1,246,728		
28. Deferred Income Tax.....	17,699,043	17,222,957	18,070,343	17,416,798		
29. Contributions in Aid of Construction.....	8,336,954	7,287,070	8,200,775	7,190,748		
30. Customer Advances for Construction.....	5,871,038	5,411,118	5,822,336	4,970,191		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,558	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	7,997,252	4,788,768		
34. Retained Earnings.....	21,173,241	20,355,677	20,031,211	19,594,770		
35. Long Term Debt.....(1).....	53,761,874	39,899,407	49,250,488	40,221,136		

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY
SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

Page 2

FOR THE MONTH ENDED OCTOBER 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$191,065,340	\$189,820,974
3	Plant Under Construction	2,046,409	2,126,164
4	Property Held For Future Use	0	0
5	Materials and Supplies	310,011	336,574
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	196,397,465	195,259,417
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	55,451,638	55,073,047
16	Accumulated Deferred Income Taxes	18,197,423	18,070,343
17	Unamortized Investment Credit - Pre 1971	39,412	39,670
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,283,631	8,200,775
21	Customer Advances for Construction	5,878,028	5,822,336
22	All Other A/	(351,334)	(334,248)
23			
24			
25			
26	Total Deductions	87,498,798	86,871,923
27			
28	Rate Base	\$108,898,667	\$108,387,494
29			
30	Net Operating Income	\$552,009	\$5,641,615
31	Adjustments to NOI		
32	Allowance for funds used during construction	5,930	128,863
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,355	144,996
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$570,293	\$5,915,474
40			
41			
42	Rate of return B/	6.28%	5.46%
A/ All Other			
	Acquisition adjustment	(\$98,228)	(\$92,121)
	Accounts payable applicable to CWIP	28,565	53,825
	Unpaid for materials and supplies	54,471	50,084
	Taxes on CIAC-DEF. FIT & SIT	(336,142)	(346,036)
		(\$351,334)	(\$334,248)
B/ Rate of return - Monthly (L25 / L18) x 12			
C/ Per order			
	Cash working capital Lead Lag Study	\$543,000	
	Incidental collection	(1,981,081)	
	Average cash	366,929	
	Other components	2,456,357	
	Working cash	\$1,385,205	

December 06, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$185,167
	(including associated insurance & taxes)	

2007

	JAN 2007	FEB 2007	MARCH 2007	APRIL 2007	MAY 2007	JUNE 2007	JULY 2007	AUGUST 2007	SEPTEMBER 2007	OCTOBER 2007	NOVEMBER 2007	DECEMBER 2007
(1) <u>WAGES & RELATED ITEMS:</u>												
INCREASE IN EXPENSES	\$162,989	\$211,135	\$259,281	\$444,483	\$420,912	\$397,340	\$373,769	\$350,198	\$326,627	\$303,056		
TAX EFFECT @ 38.90%	(63,403)	(92,132)	(100,860)	(172,904)	(163,735)	(154,955)	(154,396)	(145,958)	(136,227)	(117,889)	0	0
EFFECT ON INCOME	\$99,586	\$119,003	\$158,421	\$271,579	\$257,177	\$242,385	\$228,373	\$204,240	\$190,400	\$185,167	\$0	\$0

[illegible]

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 10/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,870	5,340	23	185	69,418
37. 3/4"	135	139	2	13	289
38. 1"	288	1,400	25	151	1,864
39. 1 1/2"	22	339	7	70	438
40. 2"	13	1,046	83	294	1,436
41. 3"		45		6	51
42. 4"&Over		34	26	41	100
43. Totals	64,328	8,343	166	760	73,597

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 12/21/07, 20__

(Signed) Michael A. Hill
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: September 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,598,987	1,577,388	10,124,801	10,410,959	14,907,247	13,872,644
2. Commercial Sales.....	1,169,559	1,115,565	7,195,332	7,749,047	10,837,782	10,347,365
3. Industrial Sales.....	417,724	379,264	2,441,814	2,768,615	3,767,919	3,740,300
4. Other Sales.....	706,227	699,592	4,472,590	4,835,520	6,848,980	6,280,619
5. Total Operating Revenues (Item 1-4).....	3,892,498	3,771,808	24,234,537	25,764,141	36,361,928	34,240,928
Operating Expenses						
6. Source of Supply Expense.....	(29,992)	36,365	163,181	153,907	171,453	216,347
7. Pumping and Water Treatment Expense.....	475,130	534,412	3,017,567	3,768,936	4,603,485	4,742,536
8. Transmission and Distribution-Operation.....	59,404	76,491	484,579	586,305	717,793	757,016
9. Transmission and Distribution-Maintenance.....	126,526	153,986	1,028,033	1,086,177	1,522,587	1,398,333
10. Customer Accounts and Sales Expense.....	147,502	155,234	1,052,240	1,217,305	1,718,704	1,743,873
11. Administrative and General Expense.....	966,380	863,614	7,756,220	7,764,746	11,927,762	10,716,044
12. Depreciation and Amortization.....	402,206	360,782	3,056,386	3,385,499	4,527,154	4,417,893
13. Taxes Other Than Income Taxes.....	571,768	454,098	2,560,865	2,753,662	4,044,727	3,654,709
14. Income Taxes.....	397,168	38,527	1,149,911	930,926	1,597,535	1,875,801
15. Total Operating Expenses (Item 6-14).....	3,116,091	2,673,508	20,268,982	21,647,463	30,831,200	29,522,552
16. Net Operating Income (Item 5 less 15).....	776,407	1,098,300	3,965,555	4,116,678	5,530,728	4,718,376
17. Other Income.....	(1,057)	3,844	73,911	8,447	68,757	1,700
18. Miscellaneous Income Deductions.....	2,778	(2,903)	52,771	21,155	63,251	21,574
19. Interest Charges.....	306,953	286,224	2,535,117	2,425,518	3,725,647	3,167,559
20. Net Income.....	465,619	818,823	1,451,578	1,678,452	1,810,587	1,530,943
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	196,046,079	180,026,613	190,124,597	173,858,486		
22. Construction Work in Progress.....	1,703,243	2,690,507	2,178,571	2,309,864		
23. Utility Plant Acquisition Adjustment.....	123,170	0	81,857	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	56,620,209	52,407,426	54,717,953	50,866,370		
26. Materials and Supplies.....	355,016	281,277	334,597	294,415		
27. Unamortized Investment Credit.....	1,135,356	1,211,724	1,170,358	1,253,092		
28. Deferred Income Tax.....	17,994,517	17,583,148	18,030,670	17,370,370		
29. Contributions in Aid of Construction.....	8,334,192	7,291,432	8,113,285	7,156,612		
30. Customer Advances for Construction.....	5,971,310	5,294,529	5,784,009	4,875,531		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,600	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	7,705,573	4,788,768		
34. Retained Earnings.....	20,932,340	20,184,104	19,963,081	19,564,969		
35. Long Term Debt.....(1).....	53,772,098	39,904,759	48,095,283	40,229,839		

(1) Includes Capital Lease

November 21, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – September 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$199,569

2007

(1) WAGES & RELATED ITEMS:
INCREASE IN EXPENSES
TAX EFFECT @ 38.90%
EFFECT ON INCOME

(2) REVENUE DUE TO RATE INCREASES:
REV. INCREASE (3-9-05 - ANNUAL)
NO. OF DAYS TO ANNUALIZE
ADDITIONAL REV. NOT REFLECTED
LESS - TAX EFFECT @ 38.9%
EFFECT TO NET INCOME

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 09/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,978	5,337	23	185	69,523
37. 3/4"	137	138	2	13	290
38. 1"	299	1,404	25	151	1,879
39. 1 1/2"	22	340	7	70	439
40. 2"	14	1,045	83	294	1,436
41. 3"		43		6	49
42. 4"&Over		33	26	41	100
43. Totals	64,450	8,340	166	760	73,716

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

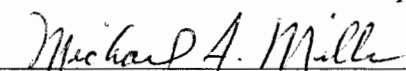
REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: _____, 20 ____

(Signed)



Title and Address:

Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

5

Company Name: Tennessee-American Water Co.
Month of Report: December 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,202,072	992,783	15,392,838	13,594,417	15,392,838	13,594,417
2. Commercial Sales.....	940,713	768,357	11,257,106	10,221,939	11,257,106	10,221,939
3. Industrial Sales.....	330,600	289,121	3,876,043	3,676,996	3,876,043	3,676,996
4. Other Sales.....	576,315	525,135	7,057,413	6,505,682	7,057,413	6,505,682
5. Total Operating Revenues (Item 1-4).....	3,049,699	2,575,397	37,583,400	33,999,034	37,583,400	33,999,034
Operating Expenses						
6. Source of Supply Expense.....	9,476	11,314	194,992	192,172	194,992	192,172
7. Pumping and Water Treatment Expense.....	423,237	343,248	4,795,556	4,879,725	4,795,556	4,879,725
8. Transmission and Distribution-Operation.....	76,980	56,030	753,192	760,116	753,192	760,116
9. Transmission and Distribution-Maintenance.....	189,681	177,799	1,577,769	1,454,204	1,577,769	1,454,204
10. Customer Accounts and Sales Expense.....	156,965	126,450	1,601,218	1,736,266	1,601,218	1,736,266
11. Administrative and General Expense.....	807,486	1,209,801	11,735,194	10,969,909	11,735,194	10,969,909
12. Depreciation and Amortization.....	342,466	366,136	4,524,365	4,454,061	4,524,365	4,454,061
13. Taxes Other Than Income Taxes.....	75,341	286,185	3,912,430	3,665,755	3,912,430	3,665,755
14. Income Taxes.....	316,354	231,089	2,117,200	981,382	2,117,200	981,382
15. Total Operating Expenses (Item 6-14).....	2,397,985	2,808,052	31,211,916	29,093,590	31,211,916	29,093,590
16. Net Operating Income (Item 5 less 15).....	651,714	(232,655)	6,371,484	4,905,444	6,371,484	4,905,444
17. Other Income.....	(6,845)	(1,863)	74,268	4,350	74,268	4,350
18. Miscellaneous Income Deductions.....	3,707	2,996	72,529	28,857	72,529	28,857
19. Interest Charges.....	308,423	309,650	3,763,880	3,309,095	3,763,880	3,309,095
20. Net Income.....	332,739	(547,163)	2,609,343	1,571,842	2,609,343	1,571,842
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	198,736,448	188,944,500	193,537,877	178,014,912		
22. Construction Work in Progress.....	1,783,975	1,580,421	2,089,758	1,883,424		
23. Utility Plant Acquisition Adjustment.....	74,850	0	94,332	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	56,768,365	53,399,996	55,726,810	51,648,133		
26. Materials and Supplies.....	304,687	292,151	309,907	317,983		
27. Unamortized Investment Credit.....	1,116,264	1,192,632	1,151,266	1,234,000		
28. Deferred Income Tax.....	16,798,926	17,578,886	18,041,605	17,471,607		
29. Contributions in Aid of Construction.....	8,252,141	8,260,830	8,278,913	7,327,564		
30. Customer Advances for Construction.....	5,963,023	5,678,228	5,874,494	5,059,221		
31. Preferred Stock.....	1,381,600	1,381,100	1,381,600	1,381,975		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	8,288,918	8,288,918	5,080,460		
34. Retained Earnings.....	20,660,764	19,440,795	20,185,257	19,665,136		
35. Long Term Debt.....(1).....	53,741,182	39,880,582	51,560,666	40,203,645		

(1) Includes Capital Lease

FOR THE MONTH ENDED DECEMBER 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$191,947,377	\$191,947,377
3	Plant Under Construction	2,089,758	2,089,758
4	Property Held For Future Use	0	0
5	Materials and Supplies	309,907	309,907
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	0
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	197,322,747	197,322,747
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	55,726,810	55,726,810
16	Accumulated Deferred Income Taxes	18,041,605	18,041,605
17	Unamortized Investment Credit - Pre 1971	39,154	39,154
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,278,913	8,278,913
21	Customer Advances for Construction	5,874,494	5,874,494
22	All Other A/	(326,565)	(326,565)
23			
24			
25			
26	Total Deductions	87,634,411	87,634,411
27			
28	Rate Base	\$109,688,336	\$109,688,336
29			
30	Net Operating Income	\$651,714	\$6,371,484
31	Adjustments to NOI		
32	Allowance for funds used during construction	4,773	97,241
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,445	147,150
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$668,932	\$6,615,875
40			
41			
42	Rate of return B/	7.32%	6.03%

A/ All Other

Acquisition adjustment	(\$94,332)	(\$94,332)
Accounts payable applicable to CWIP	53,825	53,825
Unpaid for materials and supplies	50,084	50,084
Taxes on CIAC-DEF. FIT & SIT	(336,142)	(336,142)
	(\$326,565)	(\$326,565)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

February 20, 2008

CONTINUING SURVEILLANCE CONSIDERATIONS – December 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases	\$132,760
	(including associated insurance & taxes)	

2007

(1) WAGES & RELATED ITEMS:

(2) REVENUE DUE TO RATE INCREASES:

NO. OF DAYS TO ANNUALIZE

ADDITIONAL REV. NOT REFLECTED
LESS: TAX EFFECT @ 38.9%
EFFECT TO NET INCOME

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 12/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	63,982	5,307	23	183	69,495
37. 3/4"	132	137	2	13	284
38. 1"	275	1,390	25	145	1,835
39. 1 1/2"	21	341	7	70	439
40. 2"	13	1,046	82	297	1,438
41. 3"		35		6	41
42. 4"&Over		34	26	41	101
43. Totals	64,423	8,290	165	755	73,633

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: Feb 27, 20 08

(Signed)

Title and Address:

Michael A. Mell
Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES

13

Company Name: Tennessee-American Water Co.
 Month of Report: August 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,465,663	1,145,328	10,124,801	8,833,571	14,885,647	13,314,673
2. Commercial Sales.....	1,057,313	900,054	7,195,332	6,633,482	10,783,788	10,036,121
3. Industrial Sales.....	346,220	395,639	2,441,814	2,389,352	3,729,459	3,587,121
4. Other Sales.....	649,881	606,797	4,472,590	4,135,928	6,842,344	6,100,744
5. Total Operating Revenues (Item 1-4).....	3,519,076	3,047,817	24,234,537	21,992,333	36,241,238	33,038,659
Operating Expenses						
6. Source of Supply Expense.....	85,167	18,224	163,181	117,542	237,810	180,713
7. Pumping and Water Treatment Expense.....	457,116	485,363	3,017,567	3,234,525	4,662,767	4,565,598
8. Transmission and Distribution-Operation.....	67,451	58,502	484,579	509,814	734,880	732,208
9. Transmission and Distribution-Maintenance.....	89,001	111,083	1,028,033	932,191	1,550,046	1,358,876
10. Customer Accounts and Sales Expense.....	116,118	101,596	1,052,240	1,062,071	1,726,436	1,710,015
11. Administrative and General Expense.....	1,006,154	868,726	7,756,220	6,901,132	11,824,996	10,670,352
12. Depreciation and Amortization.....	397,524	356,567	3,056,386	3,024,716	4,485,730	4,389,526
13. Taxes Other Than Income Taxes.....	325,396	279,687	2,560,865	2,299,563	3,927,057	3,476,658
14. Income Taxes.....	277,961	212,882	1,149,911	892,399	1,238,894	1,953,982
15. Total Operating Expenses (Item 6-14).....	2,821,889	2,492,630	20,268,982	18,973,953	30,388,616	29,037,928
16. Net Operating Income (Item 5 less 15).....	697,187	555,187	3,965,555	3,018,380	5,852,622	4,000,731
17. Other Income.....	(96)	(1,878)	73,911	4,602	73,658	(1,900)
18. Miscellaneous Income Deductions.....	216	0	52,771	24,058	57,570	32,181
19. Interest Charges.....	310,978	283,493	2,535,117	2,139,295	3,704,917	3,118,608
20. Net Income.....	385,897	269,817	1,451,578	859,629	2,163,793	848,042
Balance at End of Month						
Aver. for 12 Mo.-To-Date						
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	194,822,092	178,113,354	188,789,642	172,413,194		
22. Construction Work in Progress.....	1,900,910	1,815,581	2,260,843	2,501,876		
23. Utility Plant Acquisition Adjustment.....	123,170	0	71,593	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort.(1).....	56,209,203	52,062,568	54,366,888	50,633,442		
26. Materials and Supplies.....	283,745	270,179	328,452	293,894		
27. Unamortized Investment Credit.....	1,141,720	1,218,088	1,176,722	1,259,457		
28. Deferred Income Tax.....	18,037,718	17,578,393	17,996,389	17,299,134		
29. Contributions in Aid of Construction.....	8,327,799	7,284,370	8,026,388	7,108,862		
30. Customer Advances for Construction.....	5,829,309	4,867,468	5,727,611	4,781,012		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,642	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	7,413,893	4,788,768		
34. Retained Earnings.....	20,879,882	19,905,802	19,900,728	19,526,604		
35. Long Term Debt.....(1).....	53,782,242	39,913,988	46,939,671	40,238,860		

(1) Includes Capital Lease

SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

FOR THE MONTH ENDED AUGUST 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$190,152,503	\$187,199,142
3	Plant Under Construction	2,045,767	2,260,843
4	Property Held For Future Use	0	0
5	~~Materials and Supplies~~	~~305,927~~	~~328,452~~
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	28
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	195,479,902	192,764,170
12			
13			
14	Deductions:		
15	Accumulated Depreciaton and Amortization	55,109,018	54,366,888
16	Accumulated Deferred Income Taxes	18,285,084	17,996,389
17	Unamortized Investment Credit - Pre 1971	39,670	40,186
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,270,646	8,026,388
21	Customer Advances for Construction	5,867,242	5,727,611
22	All Other A/	(358,094)	(323,613)
23			
24			
25			
26	Total Deductions	87,213,566	85,833,849
27			
28	Rate Base	\$108,266,336	\$106,930,321
29			
30	Net Operating Income	\$697,187	\$5,852,622
31	Adjustments to NOI		
32	Allowance for funds used during construction	4,033	152,194
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,284	142,786
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$713,504	\$6,147,602
40			
41			
42	Rate of return B/	7.91%	5.75%

A/ All Other

Acquisition adjustment	(\$91,993)	(\$71,593)
Accounts payable applicable to CWIP	18,630	53,825
Unpaid for materials and supplies	51,411	50,084
Taxes on CIAC-DEF, FIT & SIT	(336,142)	(355,929)
	(\$358,094)	(\$323,613)

B/ Rate of return - Monthly (L25 / L18) x 12

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

October 26, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – August 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$213,971

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 08/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,067	5,373	23	184	69,647
37. 3/4"	140	138	2	13	293
38. 1"	305	1,409	25	150	1,889
39. 1 1/2"	22	338	7	70	437
40. 2"	14	1,051	84	294	1,443
41. 3"		49		4	53
42. 4"&Over		33	27	41	101
43. Totals	64,548	8,391	168	756	73,863

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 11/15, 20 07

(Signed) Michael A. Miller
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401

**MONTHLY REPORT OF REVENUES, EXPENSES AND INVESTMENTS
WATER COMPANIES**

Company Name: Tennessee-American Water Co.
Month of Report: July 2007

PSC--3.06

(a)	Amount for this Month		Year-To-Date		12 Months-To-Date	
	This Year (b)	Last Year (c)	This Year (d)	Last Year (e)	This Year (f)	Last Year (g)
Operating Revenues						
1. Residential Sales.....	1,510,364	1,170,510	8,659,139	7,688,244	14,565,312	13,375,254
2. Commercial Sales.....	1,065,670	794,475	6,138,019	5,733,428	10,626,529	10,023,884
3. Industrial Sales.....	340,277	252,101	2,095,595	1,993,713	3,778,878	3,452,209
4. Other Sales.....	616,217	492,566	3,822,709	3,529,131	6,799,260	6,008,367
5. Total Operating Revenues (Item 1-4).....	3,532,528	2,709,652	20,715,462	18,944,516	35,769,979	32,859,714
Operating Expenses						
6. Source of Supply Expense.....	3,355	19,975	78,014	99,319	170,867	208,001
7. Pumping and Water Treatment Expense.....	128,518	592,056	2,560,451	2,749,162	4,691,014	4,465,752
8. Transmission and Distribution-Operation.....	59,187	58,160	417,128	451,312	725,932	723,678
9. Transmission and Distribution-Maintenance.....	93,155	107,392	939,032	821,108	1,572,128	1,347,447
10. Customer Accounts and Sales Expense.....	150,776	148,405	936,122	960,475	1,711,913	1,736,844
11. Administrative and General Expense.....	1,331,325	853,773	6,762,273	6,032,406	11,699,776	10,631,588
12. Depreciation and Amortization.....	393,707	544,345	2,658,861	2,668,150	4,444,772	4,357,330
13. Taxes Other Than Income Taxes.....	308,647	280,723	2,235,469	2,019,876	3,881,348	3,472,680
14. Income Taxes.....	334,355	45,597	872,146	679,517	1,174,011	1,958,580
15. Total Operating Expenses (Item 6-14).....	2,803,025	2,650,426	17,459,496	16,481,325	30,071,761	28,901,900
16. Net Operating Income (Item 5 less 15).....	729,503	59,226	3,255,966	2,463,191	5,698,218	3,957,814
17. Other Income.....	2,760	(146)	74,007	6,480	71,877	0
18. Miscellaneous Income Deductions.....	9,272	4,209	52,555	24,058	57,354	31,062
19. Interest Charges.....	311,567	264,424	2,235,940	1,855,802	3,689,233	3,082,604
20. Net Income.....	411,423	(209,553)	1,041,478	589,811	2,023,508	844,148
	Balance at End of Month		Aver. for 12 Mo.-To-Date			
	This Year (h)	Last Year (i)	This Year (j)	Last Year (k)		
21. Utility Plant In Service.....(1).....	193,232,000	177,551,267	187,397,247	170,936,786		
22. Construction Work in Progress.....	2,774,842	1,493,254	2,253,732	2,848,211		
23. Utility Plant Acquisition Adjustment.....	0	0	0	0		
24. Property Held for Future Use.....	0	0	0	0		
25. Accumulated Depreciation and Amort..(1).....	56,102,356	51,726,866	54,021,335	50,401,508		
26. Materials and Supplies.....	275,053	276,805	327,322	299,887		
27. Unamortized Investment Credit.....	1,148,084	1,224,452	1,183,086	1,265,821		
28. Deferred Income Tax.....	18,900,677	17,463,466	17,958,112	17,229,950		
29. Contributions in Aid of Construction.....	8,322,093	7,269,797	7,939,436	7,061,382		
30. Customer Advances for Construction.....	5,918,084	4,759,433	5,647,458	4,682,129		
31. Preferred Stock.....	1,381,600	1,382,100	1,381,683	1,382,100		
32. Common Stock.....	13,754,235	13,754,235	13,754,235	13,754,235		
33. Premium on Capital Stock and Other Capital.....	8,288,918	4,788,768	7,122,214	4,788,768		
34. Retained Earnings.....	20,466,365	19,630,599	19,819,555	19,552,443		
35. Long Term Debt.....(1).....	53,792,306	39,932,230	45,783,983	40,247,871		

(1) Includes Capital Lease

TENNESSEE-AMERICAN WATER COMPANY
SUPPLEMENTAL FINANCIAL DATA TO PSC-3.06

Page 2

FOR THE MONTH ENDED JULY 2007

Line #		Average Monthly Balance	Average for 12 MTD
1	Additions:		
2	Plant in Service	\$189,712,633	\$185,806,747
3	Plant Under Construction	2,066,461	2,253,732
4	Property Held For Future Use	0	0
5	Materials and Supplies	309,096	327,322
6	Other Additions:		
7	Leased Utility Plant	1,590,500	1,590,500
8	Unamortized Painting - net	0	84
9	Working Capital C/	1,385,205	1,385,205
10			
11	Total Additions	195,063,895	191,363,590
12			
13			
14	Deductions:		
15	Accumulated Depreciation and Amortization	54,951,849	54,021,334
16	Accumulated Deferred Income Taxes	18,320,422	17,958,112
17	Unamortized Investment Credit - Pre 1971	39,799	40,444
18	Customer Deposits	0	0
19	Other Deductions:		
20	Contributions in Aid of Construction	8,262,481	7,939,436
21	Customer Advances for Construction	5,872,661	5,647,458
22	All Other A/	(264,142)	(256,967)
23			
24			
25			
26	Total Deductions	87,183,070	85,349,817
27			
28	Rate Base	\$107,880,825	\$106,013,773
29			
30	Net Operating Income	\$1,035,645	\$5,698,218
31	Adjustments to NOI		
32	Allowance for funds used during construction	4,443	159,306
33	Adjustment to reflect effective federal		
34	Income tax rate (debt assigned to parent)	12,240	142,795
35	Interest on customer deposits	0	0
36			
37			
38			
39	Adjusted Net Operating Income	\$1,052,328	\$6,000,319
40			
41			
42	Rate of return B/	11.71%	5.66%

A/ All Other

Acquisition adjustment	\$0	\$0
Accounts payable applicable to CWIP	20,533	53,825
Unpaid for materials and supplies	51,467	50,084
Taxes on CIAC-DEF, FIT & SIT	(336,142)	(360,876)
	(\$264,142)	(\$256,967)

B/ Rate of return - Monthly $(L25 / L18) \times 12$

C/ Per order

Cash working capital Lead Lag Study	\$543,000
Incidental collection	(1,981,081)
Average cash	366,929
Other components	2,456,357
Working cash	\$1,385,205

September 27, 2007

CONTINUING SURVEILLANCE CONSIDERATIONS – July 2007

Estimate the effect on annual net operating income of very significant known changes occurring within the period covered by the report, which are not fully reflected in the revenue and expense amounts shown in the report.

(1)	Employee wage increases (including associated insurance & taxes)	\$228,373

WATER METERS IN SERVICE AT THE END OF THE PERIOD - 07/07

Meter Size (a)	Residential (b)	Commercial (c)	Industrial (d)	Other (e)	Total (f)
36. 5/8"	64,115	5,385	23	184	69,604
37. 3/4"	137	138	2	12	290
38. 1"	305	1,404	25	150	1,878
39. 1 1/2"	22	335	7	71	432
40. 2"	14	1,048	84	298	1,437
41. 3"		50		4	57
42. 4"&Over		32	27	41	98
43. Totals	64,593	8,392	168	737	73,913

INSTRUCTIONS

1. This report is required of all water companies which had operating revenues for the proceeding year in excess of \$1,500,000 as provided in the Commission's rules. Prepare on a typewriter and file within 60 days after the end of the month covered by the report. Show amounts adjusted to the nearest dollar.
2. If any amount for the current month differs materially from that for the previous month or the same month a year ago and the difference is not self-explanatory, annotate the amount and explain the occasioning facts under "Remarks".
3. List the type and number of other customers in the water meters in service section under "Remarks".

REMARKS

N/A

I certify that to the best of my knowledge and belief this is a true and correct report:

Date: 10-1-07, 20____ (Signed) Michael A. Hill
Title and Address: Director - Rates & Revenues
1101 Broad Street, P. O. Box 6338
Chattanooga, TN 37401